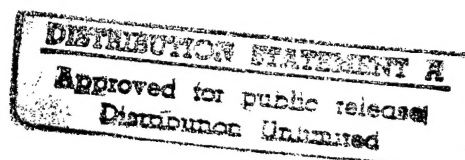




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# ***Daily Report***

## ***Supplement***



# **East Europe**

**DTIC QUALITY INSPECTED 2**

**JPRS-EER-93-013-S  
Wednesday  
24 February 1993**

REPRODUCED BY  
U.S. DEPARTMENT OF COMMERCE  
NATIONAL TECHNICAL INFORMATION SERVICE  
SPRINGFIELD, VA 22161

**19980120 143**

# East Europe SUPPLEMENT

JPRS-EER-93-013-S

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**\* Deputy Minister of Labor on Unemployment**

93BA0562A Sofia 168 CHASA in Bulgarian 12 Jan 93  
p 20

[Interview with Yordan Khristozkov, deputy minister of labor and social welfare, by Yuriy Aslanov; place and date not given: "Bulgarians Recognize Nothing but State Employment"]

[Text] *Yordan Khristozkov, deputy minister of labor and social welfare, considers 8 percent to be the critical unemployment threshold.*

[Aslanov] Are you surprised by the figure of 680,000 people, which is mentioned as the number of unemployed in Bulgaria?

[Khristozkov] No. I expected of the TsSI [Central Statistical Institute] to report an even higher number of unemployed. The reasons lie in the methods used in conducting the survey and the technology applied in data gathering. The TsSI asked the citizens themselves to determine the level of their employment and, when asked about their employment, many people associated this question with employment by the state: "I am not employed by the state and, therefore, I am unemployed." There also are people who naively believe that the purpose of the census is to receive state aid. Most of the rural population continues to till the land and to engage in agricultural work even after the dismantling of the TKZ's [Labor Cooperative Farms]. The present income of such people is substantially higher compared to the past. Today they are not taken to work, they are not given state guarantees, and they define themselves as unemployed. In all likelihood, individuals who are given mandatory unpaid leave, or who receive wages lower than the level consistent with their professional skills, also consider themselves unemployed. The labor bureaus keep records only of people who meet unemployment conditions: not employed by even a single employer, do not earn on the basis of a civil contract more than 50 percent of the minimal wage set for the country, have no outside income from other sources, are actively looking for work, and are available on the labor market.

[Aslanov] Are you sure that all persons registered in labor bureaus earn an income not exceeding 50 percent of the minimal wage?

[Khristozkov] I am not. We even have information that a high percentage of those registered as unemployed earn an income on the side which, in some cases, substantially exceeds the legal amount. Therefore, to go back to your

first question: There are far fewer unemployed compared to the number we consider reliable.

[Aslanov] Is anyone keeping track of the critical unemployment threshold? Have we crossed it or are we below it?

[Khristozkov] The very definition of the critical threshold is very difficult for us to obtain. It is complex and based on the type of economic and social system. Perhaps in other respects we may be developing slowly or smoothly, but in the employment area we experienced an exceptionally drastic transition from full employment, although fictitious, to a free manpower market. To a certain extent this was not even a transition but a shock. If you are interested in my personal view, I think that in Bulgaria unemployment exceeding 8 percent becomes socially unbearable. As far as the economy is concerned, the particular features of a conversion to a market economy could withstand even a higher percentage of unemployment.

[Aslanov] Can you comment on the projection of the trade unions, according to which by the end of this year unemployment may rise to 1 million people?

[Khristozkov] Once again, in this case it becomes a question of defining the term "unemployed" and the obvious differences in the definition which both we and the trade unions apply to this concept. The trade unions include partial employment and partial unemployment; they keep statistical data on workers who are not employed in their specialized field, who are given mandatory unpaid leave, and so on. I believe that this projection is grossly exaggerated. However, there will be an increase in unemployment as indicated by our own projections as well.

[Aslanov] In that case, why does the government refuse to support granting tax benefits to private companies that provide new jobs, as suggested by the Union for Citizens' Economic Initiative?

[Khristozkov] Perhaps incentives for providing new jobs should not be encouraged through tax privileges but through credit preferences. We too have formulated some recommendations and suggestions to stimulate private business, for private business alone can pay part of the social cost of the inevitable unemployment which will follow the restructuring of the state sector and privatization. For example, the state budget will finance the training and retraining of blue- and white-collar workers hired by private companies. We are anticipating exemption from contributions to social security funds by private companies per each five hired workers. Such expenditures as well will be paid out of the state budget.

**\* Havel's View of Czech Presidency Summarized**

93CH0324A Frankfurt/Main FRANKFURTER  
ALLGEMEINE in German 28 Jan 93 p 3

[Article by Berthold Kohler: "Despite Secularization, It Is Still an Exceptional Case—Havel Intends To Be the Guardian of Political Culture"]

[Text] Prague, 27 Jan—The six months of leisure time were not sufficient to provide house No. 78 on the banks of the Rasin River with a new coat of paint. To finally be able to care for the family property, which had suffered much during the four decades of communism, was one of the plans with which Vaclav Havel left the office of president of Czechoslovakia in July of last year more in relief rather than in depression. At that time, many people could not really believe that Havel, who was closely tied to the public well-being and suffering, would be satisfied with traveling and writing, as well as the occasional raising of his voice. On Tuesday evening, the former dissident and dramatist was elected the first president of the young republic. His own house, which he can once more look down upon in the future from Prague Castle, will have to wait another five years to be replastered.

Once more, Havel is master at Hradcany Castle. Yet the presidency which is now beginning will hardly have any great similarity to the two and a half years he spent in the broad halls of the castle high above the city following the "velvet revolution" which he led. The procedure itself already shows the difference: more crowned than elected in July 1990, Havel was not enthroned this time, but at best installed in accordance with a political farce. His wife Olga, who feels reminded of the gloomy times of totalitarianism, commented that this election had been a "very dark" event. Helplessly, the parliament had permitted the right extremist Republicans to heap the most evil insults upon Havel for four hours. Just two years ago, such a glaring display, which was, moreover, accompanied by a bomb threat, would have been unthinkable.

The republic, which now only lies at Havel's feet in terms of the space it occupies, is a different one. Therefore, the role of the president is different and Havel also has changed. The dramatist cannot and need no longer be the sole guide of the nation which referred almost everything to him for decision after the fall of the communist regime, as though he were the only honorable person in the land. Society, which had only been briefly agitated by the "revolution," has, in the meantime, once more frozen into firm structures. The parties have taken over the political affairs and have established a more or less functioning system of daily problem-solving. Havel is no longer only the dissident who laid moral claim to everything; he has also become a calculating politician. Primarily, however, another political leader has grown up alongside Havel in the past three years in the person of the current prime minister Vaclav Klaus, who personally would like to play first violin in the Czech concert.

It was this duet at the boundary of a duel which had already determined the nature of the negotiations regarding the

establishment and constitutional powers of the presidential office, as well as the tough procedures surrounding Havel's nomination. Havel has drawn closer politically to the neoconservative Klaus and, thus, has shifted to the right. But the president-designate has not become a better mouthpiece by a long shot which would translate the sober government program into solemn reality as a result. Havel emphasized his independence even during the night following the vote. He says he did not feel "particularly beholden" to the parliamentarians who voted for him. "Thanks to the secret ballot" he did not know anyway who had voted for him. The man of letters announced that he would be "happy" to cooperate with the coalition, but also with the opposition. The political competitiveness of free-spirited Havel with the technocrat Klaus, which always is a small reminder of the classic contradiction of spirit and power, will continue to accompany the noisy sounds of the everyday conflict between the Czech left and the right.

The fact that Havel intends to create some maneuvering room for himself within the mobile constitutional structure is something he made clear even before the elections. The president understands his role to be that of a "moderator," "referee," "guardian of political culture," "the instance of final appeal," without, however, wishing to hover completely "over the waters of the day-to-day political business." The head of state intends to once again attempt a balancing act between the promotion of his own political values and respect for parliament and government as equally legitimate representatives of the people. In the office of Czechoslovak president, Havel was compelled to suffer a defeat in this regard: He had overestimated his own possibilities and underestimated the independence of parliament.

Without his own in-house power—parts of the Klaus-led ODS [Civic Democratic Party] and parts of the entire coalition are critical of him and even reject him—Havel is betting this time on mechanisms built into the Constitution to help him realize his ideals. The suspension veto in the legislative proceedings and the principle of countersigning (in relationship to the government) will "somehow compel all participants to collaborate," Havel wrote in a long article in which he also presented his program prior to the elections. Havel also drew conclusions from another topic which had burdened his first presidency like a mortgage: The resurrection of the "castle," that illustrious circle of advisers, many of whom considered themselves to be the umbilicus of Czechoslovak politics, is not expected to exist in the Czech Republic. The recollection of how much some of these political amateurs combined complacency and ineptitude tends to drive up the blood pressure of many a "simple" parliamentarian even today. Many of the reservations within the coalition against Havel's candidacy were not aimed at him personally, but at the "danger" that a new court clique made up of "disguised



communists" could raise its head. Parliament decided, as a means of preventing this, that the Office of the President be radically reduced in size. Havel, who had stood by his friends in adviser garb faithful until death, intends to employ "real professionals without political ambitions" this time. This sounds like a late admission that these qualities were not overly much represented among the former staff.

And in general: Understanding tends to permeate Havel's public statements like a red thread. "Fifty percent of politics is psychology," he says; success can be had only if people can be recruited for his cause, irrespective of the quality of his advisers and his own intentions—this reads as though Havel had worked on a textbook entitled "How Can I Become a Good President" in the solitude of his Bohemian weekend cottage. The rare coincidence that one and the same person can be at the head of two different states which are almost identical in the consciousness of their citizens will bring about advantages for the Czechs, both on the domestic scene and also in foreign policy, which will soon be envied by the Slovaks. The fact that this president, despite all political secularization, continues to be an exceptional phenomenon among statesmen as well as in his republic is already known at this time.

#### \* Ruml Takes Stand on Solving Problem of Asylum

93CH0389A Leipzig LEIPZIGER VOLKSZEITUNG in German 6-7 Feb 93 p 3

[Interview with Jan Ruml, interior minister of the Czech Republic, by Ulrich Glauber in Prague; date not given: "We Cannot Cope With the Asylum Problem by Ourselves"]

[Text] During his visit to the Czech Republic, Foreign Minister Kinkel held talks in Prague on the problem of repatriation of refugees from Germany. Czech Interior Minister Jan Ruml gave an interview to our staff member in Prague on the same problem.

[Glauber] Mr Minister, the Polish Government made it unmistakably clear to Bonn that Poland is not in a position to receive asylum seekers expelled from Germany. During your visit to Bonn, what agreement did you reach with Federal Interior Minister Rudolf Seiters?

[Ruml] We know that over 400,000 refugees live in the FRG who must leave the country after the new asylum law comes into force. Naturally, it is unacceptable to us that they be shifted to the territory of the Czech Republic. We have offered to the German side that we will make possible the transit of those people through our territory to their country of origin if the transit is guaranteed by other countries, and if the German side pays for the costs.

[Glauber] Is the Czech Republic willing to offer assistance in the transit of expelled refugees through Czech territory?

[Ruml] Our idea is that there should be an ad hoc treaty with Germany on the transport of a certain contingent of refugees. They could be transported by train. The German side will organize the repatriation. We will provide police escort and humanitarian care. However, we must have a guarantee that the German side will also sign such treaties with Slovakia, Hungary, and other countries through which the transit is to proceed, so that the people do not remain in the Czech Republic.

[Glauber] A meeting of interior ministers of the countries concerned has been called in Budapest for mid-February. Can this conference come to a decision in view of the divergent interests of the individual countries?

[Ruml] In my opinion, the strategy must be changed. The Schengen agreement, which was concluded in the 1980's, was based on the fact of the Iron Curtain. The situation is different today. It is my opinion that the Schengen agreement must be modified, and should accept the initiative of the Central and East European countries, which is now taking shape, concerning this problem. These countries must proceed jointly.

[Glauber] Are there already concrete ideas on the repatriation of refugees?

[Ruml] We will make possible transit through our territory in individual cases or after individual treaties have been concluded. In concrete terms, there was talk about 40,000 Romanians. The German side has negotiated this matter with Romania. If the German side concludes a treaty with us, Slovakia, and Hungary, nothing stands in the way of transport through our territory.

[Glauber] You have said that Germany is exerting pressure in this issue. What sort of pressure is it?

[Ruml] The German side pressed us to sign a treaty on repatriation of foreigners such as exists with Poland. Naturally, this was only diplomatic pressure, naturally there were no threats. The German side informed us that it will provide us with financial, organizational, and administrative assistance. In my opinion, this is not a financial, but rather a political question. We must negotiate. On the other hand, we know that we must take measures to defend ourselves against illegal migration.

#### \* Price Increases Linked to New Tax System Defended

93CH0358A Prague EKONOM in Czech 21-27 Jan 93 p 5

[Editorial by Aram Simonian: "Do Not Pelt Businessmen With Stones!"]

[Text] The New Year's "surprise" in the form of increased retail prices resulted in general agitation. This is understandable from the standpoint of the population, but less so with respect to government officials, who brought the price increases about. Officials have already, in fact, indicated the cause: commerce! That is logical

because the scattered small-business men have a difficult time defending themselves and are not backed up by an influential lobby. Now, inspectors of all types, who are supposed to see to it that small-business men get their comeuppance by discovering excess profits, have been sent into the field. Fortunately, the liberal government came to its senses in time and has not denied its principles by instituting price regulation, which it had threatened to do.

Businessmen are now the object of general scorn. Newspapers everywhere are pillorying them (and the public surprisingly likes to hear that someone is cheating it), and the deputy minister of finance has even counseled that they be boycotted. It is even a problem to stand up for them.

Many businessmen surely did not know what to do with the new value-added tax. (After all, thanks to its hectic preparation, even officials of finance offices are having problems with it.) So, one should not be surprised that they preferred to add a little something to their prices rather than taking something away. By the time they will have experienced the new taxation system, they will surely have rectified that transgression. That is already happening.

But the majority made use of the opportunity provided by the previously announced government price increases primarily to equalize growing costs, about which a chaste silence is being maintained "upstairs." If we look at the price increases in more detail, we will discover them in another light. I shall use as an example the justification of the new prices after 1 January (without the value-added tax), which was related to the organ of the Czech Business Inspectorate by the owner of a drugstore in Jablonec nad Nisou: health insurance for employees and entrepreneurs; increased insurance for the store; expenditures for the security system for the store; increased premiums for the obligatory guarantees involving damages resulting from operating a motor vehicle; the highway tax; increased deposits for heating (amounting to 30 percent); increased motor fuel prices; increased prices for electric energy; higher fees for trash removal; real estate taxes; insurance for the building; increases in municipal fees for entering the city center, rising from 2,300 to 10,000 korunas [Kcs], and advertising costs, rising from Kcs0 to Kcs3,000; increased postage expenditures; higher transaction fees, payable to the Bank of Commerce (higher by Kcs3,000 per year); and 15-percent increases in employee wages, based on the price rise. A fine set of new expenditures, wouldn't you say?

I am really curious as to what kind of "excessive profits" the inspectors will find in business establishments. After all, the effort to achieve the maximum profit is the motive force behind the market system. What kind of businessman would not be striving to achieve it? It is quite another matter, however, for him to be achieving it through better service and more advantageous purchases, rather than through a monopoly position. And that is a matter for the government. After all, we have

institutions to see to that. And, by the way, higher profits attract additional entrepreneurs into the sector. and this, in turn, strengthens desirable competition. But these are the ABC's of a market economy, and we surely do not need to tire our readers with that.

But the public must be aware that greater purchasing comfort than was afforded us by the decimated socialist distribution system will also cost something. There will be more pretty stores, longer open hours, a better selection of merchandise. All of this will be reflected in the commercial surcharges levied by businessmen. And high rentals that businessmen must pay in a number of places, as well as the horrendous amounts paid out in auctions of facilities subjected to small-scale privatization, which were such a source of joy to former Minister Jezek, will play their role.

After 1 January 1991, state commerce unnecessarily reached into the pocketbooks of the population when it took the not insignificant profits, which it did not need, in view of its preordained demise. But we will not accomplish much with this: Our money is God knows where, and we also have another government. But let us not now make our businessmen sacrificial lambs, to be sacrificed for an unpopular action.

#### \* Closing of Economics and Forecasting Institute

93CH0358B Prague HOSPODARSKE NOVINY in  
Czech 27 Jan 93 p 7

[Article by Roman Pospisil: "Starting Economics Research From Zero?—What Led to the Closing of the Economics and Forecasting Institute"]

[Text] *Basic economics research in the past was handled within the framework of the Czechoslovak Academy of Sciences by three institutes: the Forecasting Institute of the Czechoslovak Academy of Sciences (PgU) and the Economics Institute of the Czechoslovak Academy of Sciences (EU) in Prague, and the Socioeconomic Institute of the Czechoslovak Academy of Sciences at Usti nad Labem. However, the year before last, black clouds began to gather over these work sites in the form of the threat of their closures. Last year, the National Economics Institute of the Czechoslovak Academy of Sciences, which was to replace the Prague institutes, was established, according to the notions of the Committee for Directing Work Sites of the Czechoslovak Academy of Sciences.*

#### Act One: Evaluation

The dispute regarding the future shape of economics research within the academy started at the beginning of 1991 and persists to this day.

At the beginning of 1991, the activities of all institutes of the academy over the past three years were evaluated. Among those that came off the worst within the framework of the Department of Social Sciences were the three above-named facilities. Therefore, it was decided that their activities would be examined and evaluated by a

special commission, which would propose steps to improve the situation in economics research within the Czechoslovak Academy of Sciences.

However, specific objections were raised by the impacted work sites against even the evaluation itself. The then deputy director of the Economics Institute, Eng. Oldrich Dedek, reminds us of the problem involved in the selection of criteria, given a multiple-criteria decision (evaluation) in this regard. According to him, the method did not take into account any publications in the press of the type of HOSPODARSKE NOVINY or EKONOM, which represent a specific component of the publications activities of the Economics Institute. This is the result of pressure on topicality in publishing individual materials and studies having to do, for example, with the development of the national economy or the process of economic transformation. "This involved a cross-section snapshot of institutes that are difficult to place on an equal footing (the evaluation was conducted separately in individual departments of the academy—editorial note), which, moreover, failed to take into account the developments since 1989. At that time, the number of speeches given by each employee of our institute abroad was approximately two, which had no parallel elsewhere. The same was true of the awarding of foreign grants. A tremendous wave of criticism of the method was developed particularly in our department. In the beginning, the presidium ascribed such importance to the evaluation that it wanted to use the results to adjust the budgets of individual institutes. Following the enormous criticism of the nonsensicalness of this approach, it was forced to abandon that position. At one meeting, Docent J. Veprek, who was a member of the commission that subsequently proposed the closing of the Economics Institute as well as the Forecasting Institute, stated that, if he compares the expenditures and the results of the entire campaign, he reaches the conclusion that it is necessary to look for other methods," Eng. O. Dedek told HOSPODARSKE NOVINY.

The entire campaign was also dubbed as nonsense by the former director of the Forecasting Institute, Prof. Valtr Komarek.

#### Act Two: Commission No. 1

In the Committee for Directing Work Sites, a "transformation" commission was established under the leadership of Docent Eng. Jaromir Veprek, an employee of the Economics Institute of the Czechoslovak Academy of Sciences. By the end of August 1991, the commission submitted a proposal to close down the Economics Institute as well as the Forecasting Institute and proposed the creation of a new institute that would accept the employees of both of the above institutes on a priority basis following new competitive proceedings. In the case of the Usti nad Labem work site, the view prevailed that that institute has a certain specific role to play in its region and that it would therefore be most advantageous to find some way of amalgamating it with the nascent Socioeconomic Faculty of the Usti nad

Labem University. According to information provided by the Economics Institute, two members of the commission, Prof. Karel Louba and Eng. Vaclav Kupka (the current deputy minister of the economy for the Czech Republic), distanced themselves from this conclusion by issuing a written protest. The proposal was discussed by the Committee for Directing Work Sites of the Czechoslovak Academy of Sciences, which, in August 1991, was under the direction of Docent Veprek, and unanimously approved.

#### Act Three: Negotiations

The Committee for Directing Work Sites initiated negotiations with both institutes, represented by the directors and chairmen of their scientific councils, who raised a number of objections about the decisions of the Committee for Directing Work Sites. The representatives of the institutes pointed out the certain reputation enjoyed by their work sites abroad, including various contacts, which it would not be advantageous to disrupt. Above all, however, representatives of both institutes felt that the criticism was based primarily on ideological viewpoints. The then deputy of the Scientific Council of the Economics Institute for the negotiations, Docent Jiri Chlumsky, who is now charged with directing the Economics Institute, stated the following in this regard: "We felt that that criticism was unjustified from many viewpoints. As early as 1989, our institute organized courses in microeconomics and macroeconomics, which our candidates were required to attend. In addition, those courses were attended by a number of teachers—for example, people from the Advanced School of Economics. That graduate school was relatively the best of all schools for postgraduate studies. A number of neo-classical-type works were written there. That required a certain atmosphere of tolerance and creativity. The Economics Institute was also attended by all those who meant or mean something in economics, including a number of current ministers and their deputies. It is no accident that Minister Vladimir Dlouhy supported our position in writing during the negotiations and that Czech Prime Minister Vaclav Klaus gave his oral support to our negotiations before the commission. We also had him write down his views for us. The chairman of the Committee for Directing Work Sites, Hancil, objected to this as an incursion into the decisionmaking process of organs of the academy from outside. Prior to that time, the commission had frequently referred to critical evaluations of the Economics Institute by government officials active within it. Docent Jaromir Veprek commented on the dispute as follows: "Marxist political economics was absolutely prevalent in both of the institutes. That is completely evident because all of their employees were part of the *nomenklatura* of the Central Committee of the CPCZ [Czechoslovak Communist Party]. It seemed to us in a number of cases to be an illusion that all of them have now become specialists in market economics. It would therefore be well to open room for some specialists from abroad and for a number of young people to be sent abroad into the world, who



could then work effectively with some knowledge of the market economy. We were not so much concerned with stopping Marxist economics from developing, nor were we interested in shunting into the background those employees whose qualifications were undisputed only because they were in the previous leadership of the institute. But we believe that Marxist economics should not be a prevalent stream in the subsequent development of economics research in this country and that people who were part of the *nomenklatura* should not be directing the education of young employees. The Forecasting Institute was created by party organs directly as a special-purpose organization. Its task was to prepare some long-range analyses of development on which the State Planning Commission could base its activities. This has already been overcome by developments, something that corresponded to the views of all of the others involved."

"Such views can only be held by people who know nothing about prognostication and forecasting or do not wish to know anything about those subjects," Prof. V. Komarek told HOSPODARSKE NOVINY. "The institute began its activities under highly restricted conditions, with two offices and a single typewriter for seven persons. That certainly does not indicate that it was somehow a very popular work site. In the final analysis, many people had previously striven to close it down, and sometimes it was the subject of serious negotiations." A similar opinion on this topic was expressed by the representatives of the Economics Institute. They did not forget to remind us that Prof. V. Komarek had earlier employed in his institute many people who were unable to find work because of their convictions after 1968, despite the fact that they ranked among recognized specialists.

#### Act Four: Counterproposals

In September 1991, there was an agreement that both institutes would submit their own proposals in formulating two conditions. One was the development of only a single work site, as was the case before the development of the Forecasting Institute (for reasons mentioned above); the other was that all employees of the new institute should be subject to renewed competitive selection. However, the proposals, which both institutes submitted at the end of November 1991, failed to take either of the conditions into account, according to Docent J. Veprek, and thus failed to respond to the requirement: "The institutes were proposing that the competitive reevaluation not impact on their leadership, which would be making up the recompetitive commission themselves. The directors of both institutes were to be retained, justifying the move by saying that that would be a joint work site. The only joint work sites were to be the library, the technical service facilities for the work sites, and so forth."

"It is primarily necessary to realize that forecasting is not merely an economics science and that the creation of a single joint institute with the Economics Institute is,

therefore, unjustified. Our proposal was conceived in such a manner that it would primarily reduce the expenditures for operating both institutes. We were successful in this. As far as competitive reevaluation is concerned, we found it unsuitable for people who had adequately demonstrated their specialized level through their publications activities in the past to be subject to a competitive reevaluation before a commission composed of people who do not know much about economics or forecasting," stated Prof. V. Komarek. According to Eng. O. Dedek, the counterproposal by the institutes was more efficient from the economic standpoint than the proposal to create a new institute: "It included a reduction in the number of employees, the abandonment of certain buildings, the concentration of both institutes into one building, and the sharing of an economic administration. We found it to be totally irrelevant whether there would be a single institute or two institutes. Under Director Jan Klacek, a number of international projects valued at hundreds of thousands of dollars came into being. However, we learned from the report that that involved utilizing contacts of prominent individuals from the past and of boom-type interests in East Europe. We were besieged by crowds of journalists. We felt it was unnecessary, for ideological reasons, to disrupt the development of both institutes, which had great credit, and we did not wish to devalue our existing work and start from scratch again." Docent J. Chlumsky was specific regarding the content of the proposal: "We agreed with the formation of a work site with related service facilities, in which both institutes could preserve a certain degree of independence. We considered the establishment of an institute with two departments or the existence of a forecasting cabinet within the framework of the Economics Institute. We also agreed with the competitive reevaluations. Only in view of tradition did we demand that Jan Klacek remain in the function of director of the institute, so as to preserve a certain degree of continuity. No official objections were ever raised against him in the committee. Nevertheless, we were willing to agree for the Committee for Directing Work Sites to nominate a new director, following agreement with us, who would then remain in that function. We also wanted to retain the name of the institute for reasons of preserving international contacts, which could be brought into question otherwise. It is no happenstance that the appellation National Economics Institute translates into English as the Economics Institute."

#### Act Five: Commission No. 2

The above proposals were judged by a second commission, which was expanded by the addition of representatives from the Economics Institute and the Forecasting Institute. According to unnamed representatives of the Economics Institute, however, even that commission was not overly representative. The majority of its members were allegedly proposed by Docent J. Veprek and were approved by the Committee for Directing Work Sites. It allegedly contained a number of people who had nothing in common with economics or did not succeed

as candidates for the function of the director of the Economics Institute (this assault was clearly aimed at Dr. Jaromir Veprek and Docent Josef Zieleniec), and so forth. In December 1991, the commission failed to approve the proposals and confirmed the conclusions of commission No. 1. Those were approved during the same months by the Committee for Directing Work Sites of the Czechoslovak Academy of Sciences, and the decision was made to close both institutes and to create the National Economics Institute of the Czechoslovak Academy of Sciences.

#### Act Six: Appeal

Within the framework of the statutes of the Czechoslovak Academy of Sciences, which were adopted after 1989, the scientific councils of both institutes appealed the decision to the General Assembly of the Czechoslovak Academy of Sciences. However, that body was convened for the last time in 1991.

#### Act Seven: Competition

In the meantime, according to information provided by the Economics Institute, a contest was announced for the position of director of the National Economics Institute—a contest for which no one applied. And that was so despite the fact that the announcement was repeated over a period of four months.

#### Act Eight: Establishment of the National Economics Institute of the Czechoslovak Academy of Sciences

In July of last year, within the framework of yet another contest, Prof. Jan Svejnar of the University of Pittsburgh was selected to be the director of the National Economics Institute. In August 1992, the National Economics Institute of the Czechoslovak Academy of Sciences was then established. As of that moment, a number of negotiations took place involving Prof. J. Svejnar and the leadership of both institutes. According to representatives of the Economics Institute, the negotiations were extremely correct, and both sides recognized a number of the arguments raised by their partners. Circles close to the leaderships of all of the institutes involved were even heard to say several times that the agreement was already virtually "in the bag." In oral form, it was said that the agreement had in fact been proclaimed at a plenary session involving employees of the Economics Institute and the Forecasting Institute and Prof. J. Svejnar. However, it was never concluded or fulfilled in writing.

#### Conclusion?

On 31 December 1992, the Academy of Sciences of the Czech Republic was established as one of the two successor organizations to the Czechoslovak Academy of Sciences. The academy is already authorized to adopt and realize final solutions in an appropriate manner.

Much has changed from the beginning of the dispute until today. Primarily, a number of people have left the Economics Institute as well as the Forecasting Institute,

among other things certainly because of the uncertainty surrounding the question of their continued existence. Frequently, those people were the most capable. Virtually the entire leadership of the Economics Institute transferred to the newly established Economics Institute of the SBCS [State Bank of Czechoslovakia]. The former director of the Economics Institute of the Czechoslovak Academy of Sciences, Eng. Jan Klacek, became its director. His deputy is Eng. Oldrich Dedek. A large number of individuals also left because of the reduction in force at the Economics Institute. Before November 1989, that institute employed about 250 individuals. By the end of last year, it had approximately 70 employees, including not quite 30 scientific and research workers. Some of those who left work today for the National Economics Institute of the Czechoslovak Academy of Sciences. A similar "brain drain" occurred in the Forecasting Institute of the Czechoslovak Academy of Sciences. Moreover, following its demise, it is clear that a large number of older scientific workers and research workers will be retired. However, according to our information, two groups would be interested in taking up their activities within the National Economics Institute. According to Docent Jiri Chlumsky and Eng. Oldrich Dedek, that institute could become a good work site for the education of young specialists. Prof. Valtr Komarek has already expressed his opinion somewhat more skeptically. The question is whether the obligation of all employees of the National Economics Institute to complete their doctoral studies by age 40 at the CERGE [Center for Economic Research and Graduate Education] (the center established at Charles University in Prague), which means a minimum two-year hiatus in their research and scientific activities, will not discourage specialists in that age group from remaining in their research fields. The fact that many of the current employees of the Economics Institute and the Forecasting Institute feel insulted by the approach used by the Committee for Directing Work Sites of the Czechoslovak Academy of Sciences regarding this entire business will surely also play a role in their decisions whether to transfer to the National Economics Institute. Whether this feeling is justified is not up to us to judge at this time.

On 12 January of this year, the leadership of the academy decided to close down approximately 20 percent of its institutes. The Economics Institute and the Forecasting Institute are among them. The academy can do so, provided it publishes that decision no sooner than 30 days before the negotiations of its assembly, which must confirm the decision. This assembly will meet at the end of February, and it is generally expected that it will confirm the January decisions.

#### \* Prague Stock Exchange Opening, Rules Discussed

93CH0358C Prague HOSPODARSKE NOVINY in Czech 28 Jan 93 p 15

[Interview with Jiri Franc, secretary general of the Prague Stock Exchange, by Marcela Doleckova; place and date not given: "The Prague Stock Exchange"]



[Text] *The Prague Stock Exchange, joint-stock corporation (BCPP), was established on the basis of a partnership agreement dated 24 July 1992, which was signed by 12 monetary institutions and five brokerage firms. It was recorded in the Commercial Register on 24 November 1992. An extraordinary General Assembly then decided, on 30 November 1992, to increase its basic capitalization to 120 million korunas [Kcs]. The number of members of the Stock Exchange is currently 40 and includes both banks and investment and brokerage firms.*

*The object of the activities of the BCPP is to concentrate the supply and demand for securities at a specific location and a specified time through the offices of authorized individuals, to organize transactions involving securities through these individuals, to assure the publication of the results of Exchange transactions and quotations of securities prices, and to conduct consultations and be responsible for related enlightenment.*

*The highest organ of the Exchange is the General Assembly. The Exchange Chamber is the statutory organ of the Exchange, which conducts its activities and acts in its name. This body has 16 members. A five-member Oversight Council checks to make sure that the activities of the Exchange are handled in harmony with legal regulations. For the time being, the Exchange Chamber has established three Stock Exchange committees:*

*The Committee for Membership Questions submits proposals to the Exchange Chamber regarding decisions involving membership in the Exchange. Approval of membership is decided, however, by the Exchange Chamber.*

*The Committee for Securities Price Quotations grants permission to quote the prices of securities in Exchange transactions.*

*The Committee for Exchange Transactions evaluates complaints and reminders involved in transactions and the settlement of Exchange transactions.*

*The Exchange Chamber appoints a general secretary, whose jurisdiction includes the implementation of the resolutions adopted by the Exchange Chamber, the direction of the Exchange operations, and the activities of its apparatus. In recent days, Jiri Franc was appointed secretary general of the Stock Exchange and has granted us the following interview:*

[Doleckova] When the idea of the Stock Exchange was first being conceived, the formula 30-300-3,000 was frequently used, which was intended to indicate that the main market would see trading in approximately 30 securities, the secondary market would see trading involving 300 securities, and the tertiary market would involve 3,000 securities. Did that concept survive?

[Franc] I know that that was an enchanting formula that we have, however, already abandoned. The Exchange Committee for Quotations is presenting the Exchange Chamber with a proposal calling for the Exchange to have only one official market in the beginning period—

that is, an official market. We arrived at that viewpoint in evaluating the developments of the situation in the Czech Republic and, primarily, in conjunction with the progress of coupon privatization. Our original notion was that quoted securities would be traded at the principal market as well as in the secondary market. In view of the fact that it is somewhat more problematic to establish the value of enterprises and difficult to estimate how this value will be developing, we came to the conclusion that it would be premature to break up securities and that we should therefore create a single official market. It is only later, when we see that we are capable of judging the value of enterprises a little better, that we shall return, with the greatest likelihood, to thinking about two markets.

[Doleckova] What do you consider to be the initial period?

[Franc] The period until the economy stabilizes, which I estimate to be two to three years.

[Doleckova] Who will decide which securities can be brought to the official market? Will there be 1,000 or 10?

[Franc] I consider naming a specific number to be premature. Of course, we are beginning to gradually work with joint-stock corporations, where it is possible to anticipate that their securities have a high quality. These corporations must work up their prospectuses, which contain a large amount of data. The Committee for Quotations will evaluate all indicators and will either suggest that the securities be quoted or reject the fact. This year, this procedure will definitely not involve hundreds of enterprises, but, more likely, there can be five, 10, or 15. In any event, we will be dealing with tens rather than hundreds. This is a market that must be very stable.

[Doleckova] If the Stock Exchange, or, better said, its official market, will be trading in only 10 securities, what about the hundreds of others? Will there nevertheless be a secondary market at the Exchange?

[Franc] We shall be trading securities in the Stock Exchange that are not quoted. That means, for the most part, those securities that come into being even on the basis of coupon privatization. The value of those securities will not be guaranteed by the Exchange. On the other hand, in the case of quoted securities, the Stock Exchange verifies that that is truly a high-quality paper because the issuer of such securities, the stock corporation, is obliged to provide certain information at regular intervals, and the information will be constantly evaluated.

[Doleckova] It is known that the Exchange will trade using the system of daily fixings, with the prices not being able to fluctuate from day to day by more than 10 percent. But how, specifically, will a small investor act?

[Franc] The members of the Stock Exchange make up a relatively extensive network, to which the major as well

as the minor investors can turn. For example, two of our members already have a net of approximately 300 locations. This is not merely a case of the Bank of Commerce or a savings institution but involves private firms, as well, so that we can anticipate that our members will cover the entire territory of the Republic across the board.

[Doleckova] These collection locations for demand or supply, however, can only be something like a letter carrier, who will transfer an order to the Stock Exchange and bring the client the result and levy a certain charge for the service.

[Franc] I am personally convinced that today the role of a broker is irreplaceable. It will be a person who will best know the situation in the market and be most familiar with the situation in the individual stock corporations. And he will, of course, orient those who are interested in trading for a fee, so that the interested party might not, by accident, be buying a pig in a poke.

[Doleckova] Nevertheless, a number of experts believe that today and in this land there is no one capable of seriously evaluating any enterprise and its securities. The greatest amount of information is in the hands of ordinary holders of investment coupons because they learned a lesson from coupon privatization.

[Franc] I would not simplify the situation in this manner. Even in this state, there are enough specialists today who monitor this field and who nevertheless are capable, in line with certain attributes, of judging whether they are dealing with a prospering enterprise. Do not believe it when someone says that a broker is interested only in trading at any price. A certain solidarity will be established in this country, and, if someone were to swindle a holder of investment coupons, that holder would not seek those services a second time.

[Doleckova] Will the Stock Exchange be trading only in registered securities?

[Franc] We are prepared to trade both materialized and dematerialized securities, with the proviso that the materialized securities (in list form) would have to be immobilized in a certain way and could then be handled as if they were dematerialized.

[Doleckova] If an investor places an order to purchase or to sell something, how soon will he learn the results?

[Franc] That will depend on the agreement between the investor and the individual trader. I assume that the trader will be able to orient the investor, to tell him whether certain securities are on the market, and to inform him as to whether his requirements are appropriate. I believe that will occur within a certain deadline.

[Doleckova] What is your opinion of any other organizers of a securities market?

[Franc] I believe there is enough work here for everybody. This is, of course, also true of the RM [expansion

unknown] system. I feel that a market of this type can play a certain important role, primarily in the beginning period, even though I believe that both foreign and domestic investors will try more to buy through the Exchange because the Exchange is, after all, an institution that guarantees a certain quality of business transaction.

[Doleckova] However, the Stock Exchange guarantees the quality of securities only in its official market, where, as you have said, it will be difficult to trade more than 15 types of securities. Moreover, the RM system is nothing that is without precedent in the world: Even throughout the world there exist systems without arbiters, without brokers, with direct access to trading.

[Franc] That is true, but those systems are not of major significance. Even the U.S. NASDAQ [National Association of Securities Dealers Automated], which is referred to by many people today, does not have direct access to trading without a broker; it specifically requires a broker.

[Doleckova] You spoke of the fact that you have established contact with corporations you consider to be sufficiently prosperous to permit their securities to be quoted. What is their reaction?

[Franc] It varies. Some who are already headed by new managements realize what it means for them to have their securities quoted.

[Doleckova] Can you be specific as to which corporations are involved?

[Franc] Do not ask me to do that. I am not about to tell you for the time being. We would be very glad if there were between five and 15 of them; that would be a success. What is important is that even the securities of those other corporations be traded through the Exchange.

[Doleckova] What are the rules for quotations?

[Franc] The Exchange Committee for Quotations has worked out proposed conditions for quotation that will be submitted to the Exchange Chamber. It is evident from the proposal that the primary requirement for securities that are being quoted must be that they have been completely paid off and are tradable without restriction; the amount of basic capital of the issuer will be judged according to the Commercial Code; the amount of the issue released on the basis of a public offering should be at least Kcs100 million, the share of the issue released on the basis of a general offering in the overall volume of the issue should be at least 20 percent, and the duration of entrepreneurial activities engaged in by the issuer should be a minimum of two years.

[Doleckova] Coupon privatization, of course, did not create the capital necessary to start up a capital market. I have heard estimates that the startup of a market would require at least \$800 million.

[Franc] You are actually asking who will be trading in this country. I believe it will be not only small investors, funds, and banks, but also foreign investors. I am convinced that foreign investors will undoubtedly come. We know that they have a lively interest in trading on the Prague Stock Exchange. Perhaps they will only be observing for a certain time what is happening, but, in view of the fact that foreign banks as well as foreign brokerage firms are stockholders of the Stock Exchange and members, foreign investors can play a very active role.

**\* Privatized Companies Shares Issued During Feb-Apr**

93CH0358G Prague HOSPODARSKE NOVINY in Czech 28 Jan 93 p 17

[Article by (dd): "The Center for Securities: An Important Link in the Capital Market—Where Will the Trading of Securities End Up?"]

[Text] *Approximately 6 million accounts for stockholders, approximately 2,400 accounts for issuers, and approximately 440 accounts for investment privatization funds will be maintained immediately following the transfer of securities from coupon privatization by the Center for Securities (SCP).*

The center was established in accordance with the securities law by the Ministry of Finance of the Czech Republic. It is a contributory organization, directed by a small team of experts. All services connected with the technical support of the center's operation are provided, on a commercial basis, by the Computer Equipment Enterprise, joint-stock corporation, Prague (PVT). PVT is currently finalizing work on a central office location for the center, which, among others, houses a VAX 7000-620 computer that will be used to process the transfer of securities. Total investment is about 100 million korunas and is being financed by PVT. Of course, that is being done in anticipation of the money being returned soon in the form of fees for services rendered. Services will be provided by 35 reliable employees (who have been lustrated and who have no criminal records), who have been completely detached from PVT.

What will the activities of the Center for Securities involve? By law, the center is primarily obliged to keep records of registered securities, changes in their ownership, and other data. It can accept for safekeeping even lists of securities and is authorized to provide services connected with operations involving securities to owners, issuers, traders, and organizers of the securities market. In practice, that should mean that trades involving dematerialized securities will definitively end up at the SCP, where transfers among varying accounts will be accomplished whenever two orders (buy—sale) are matched up at the center and can be successfully paired so that they can be taken off one securities account and credited to another. Only this transfer will

serve to confirm the definitive trade. Direct access to the center will be granted to organizers of the securities market, traders in securities, issuers, and owners of securities. Equal conditions for access are created for all users of the center. A user can communicate with the Center for Securities in three ways. It is expected that large-scale traders, brokers, and organizers of the market and securities will be connected with the center in an "on-line" system—that is, they will be able to request the center to provide immediate services or will be able to ask questions. Modem connection will facilitate remote contact. For private individuals, it will most likely be the simplest to engage in postal correspondence or personal contact.

Test operations of the SCP will begin in February; at the end of March and the beginning of April, the SCP will render its first services to its clients—extracts from accounts—which will contain the number of the account maintained with the SCP (computer-generated from the number of the coupon booklet) and data on the quantity and nature of the securities the owner of the account has. The extract from the account should be handed personally to individual investors. Investment privatization funds will receive this information in the form of computer diskettes. The center has the duty of providing each client an extract from the account once per year and each time there is any activity in the account. Great interest in the services provided by the center is expected to develop immediately following the handing over of stockholder rights because many stockholders will endeavor to sell their securities, others will call for transfers by gift or within the framework of inheritance, and so forth. All of this requires the perfect startup of the center, on which the functioning of the entire nascent capital market literally "hangs."

**\* Stock Sales Outside Stock Market Viewed**

93CH0358F Prague HOSPODARSKE NOVINY in Czech 28 Jan 93 p 16

[Article by (do): "Stocks To Be Sold Not Only in the Stock Market—A Modern Method of Organizing the Capital Market—The RM System"]

[Text] *The stock market is undoubtedly the classic or perhaps the traditional form of trading publicly tradable securities. The stock market is nothing more than a market in which, as is the case in every market, supply encounters demand, but it differs from an "ordinary" market by the fact that not everyone can participate directly in this trading: Access to the stock market is available only to its members, who, for a fee, provide services to other interests regarding the sale or purchase of securities.*

In recent years, however, in addition to this traditional form, a new form is beginning to assert itself that no longer uses the services of brokers but makes it possible for participants to have direct access to the market. This new form is facilitated, on the one hand, technically by

the development of computer technology (only computers can organize things with sufficient rapidity and bring supply and demand into contact quickly enough); on the other hand, it is essentially compelled by the constantly broader ownership of securities. And the existence of millions of stockholders in the Czech Republic as well as in Slovakia is also one of the reasons cited by the authors of the market for securities that is organized by the computer system—a system that has been assigned the “trademark” of the RM [expansion unknown] system.

The computer concept of the RM system is based on the experiences gathered as a result of coupon privatization but raises it to a higher level both qualitatively and quantitatively. The system will only be used to trade dematerialized paper—in other words, paper that has been registered with the Center for Securities in the form of an electronic recordation. All securities sold within the framework of the first wave of coupon privatization for investment points will receive this form.

In the beginning, it is expected that the former registration offices will serve as contact offices (trading locations) because they cover the entire territory of the state anyway. Those interested in selling or buying securities at those offices will fill out a registration card (to the extent to which they participated in coupon privatization, that step is eliminated because, as owners of securities, they are already “registered”) and they will then fill out a trading ticket. That will include the order, irrespective of whether it is a buy or a sell order, with specific conditions. Because the RM system will involve auction-type trading within certain price ranges, it is not possible to arbitrarily set the price, but it must be kept within a given range. That range will be valid only for a single auction, which could be likened to one round in coupon privatization. During the auction, as was the case during a round, expressions of interest are collected with respect to the purchase and the sale, with the only difference being that the sale will not involve state-owned securities but those owned by another investor. Of course, there is nothing to prevent even large investors, including, say, the Fund of National Property, from participating in the auction.

In publishing the prices of securities for purposes of the first auction, the “points” prices of securities from coupon privatization will clearly be taken into account with more or less accuracy, but not even the initiators consider this first auction and the first published prices to be the most significant. They are basing their views on the fact that the real market price of each traded paper will be developed in the market itself. If, in the beginning, for example, a price were to be “overshot” in an upward direction, the only effect might be that no one would wish to buy that security. Thereafter, it is enough to lower the price for purposes of the next auction. That is why the initiators of that market are not overly afraid that, in the beginning, the supply might substantially outweigh demand and that the offered securities might not be sold. According to their view, it is sufficient to

adjust the price appropriately: Anyone who is willing to sell only at a higher price will not be offering securities for sale, and anyone who is willing to buy only at a lower price will make a decision to buy. This is the way in which the offering is to come into balance gradually with the demand.

The duration of the individual auctions will, in the very beginning, obviously be within the framework of several weeks, but then the length of individual auctions will be differentiated already, so that, in the case of some securities, the situation could stabilize relatively rapidly, and, in the case of others, it will take longer.

In the beginning, obviously the final reporting of prices will not take place until after conclusion of the individual longer-lasting auctions, but the system is conceived in such a way that, in the future, auctions could actually be held every day, and prices could then be published every day as well.

The fees for brokering access to the market should be approximately at a level of 1 percent of the concluded trades. The clerk at the trading location, who will be receiving orders, is in no case comparable to a broker: He only advises on technical questions—namely, how to fill out the registration or a trading slip. The RM system has absolutely no ambitions to function as an investment adviser, which, however, does not exclude the possibility that anyone who utilizes the services of the system may consult, ahead of time, with anyone he wishes, regarding when and what to sell and when and what to buy.

The authors of the system anticipate that, in addition to the RM system, several other public markets that will also have direct access for participants may develop. They believe that that is particularly true of the large banks that have established investment corporations and that will obviously be brokering at least the trades of securities involving their own funds.

#### **\* Property Worth Kcs470 Billion Going to Stockholders**

*93CH0358E Prague HOSPODARSKE NOVINY in Czech 28 Jan 93 p 16*

[Article by (dd): “The Privatization Balance—Property Valued at 470 Billion Korunas Will Have New Owners”]

[Text] Overall, by the last day of last year, 16,609 privatization projects, involving 3,638 entities, were submitted to the Ministry for the Administration of National Property and Its Privatization of the Czech Republic. A few hitherto “undelivered” projects involving health-care facilities and regionally directed enterprises need to be added to that number.

By the same time, decisions had been made regarding 10,821 projects, including the approval of 3,029; 7,792 were rejected. The approved projects are solving the privatization of state property valued at approximately 470 billion korunas [Kcs]. Some 5,788 privatization



projects having to do with 1,468 enterprises are awaiting action at the ministry. This is evident from the cumulative report of the Czech Republic Ministry for the Administration of National Property and Its Privatization.

The predominant privatization method is the transformation of enterprises into stock corporations. Their securities were, for the most part (62.2 percent), offered in return for coupons, temporarily retained in the Fund of National Property (15.5 percent), and transferred, free of charge, primarily to communities (11.3 percent). This was followed by their separation for the Restitution Investment Fund, for direct sale to domestic interests, sale to foreign interests, sale to employees in the form of employee stock certificates, and so forth.

Some 89 percent of all privatized property was transformed into stock corporations, 6 percent was sold to previously identified interests, and 2 percent each was sold at public auction and transferred, free of charge, to entities identified in the project. Only 1 percent of all privatized property was sold at auctions within the framework of large-scale privatization.

By the end of last year, foreign investors had purchased securities of a nominal value of approximately Kcs7 billion and had purchased property valued at approximately Kcs4 billion. For some foreign investors, the property is temporarily deposited with the Fund of National Property. Foreign investors come from 16 countries. The greatest share of the investment total is accounted for by investors from the United States (25 percent), the Federal Republic of Germany (21 percent), Switzerland (13 percent), France, Austria, and so forth. As of 31 December 1992, the privatization ministry transferred 1,872 approved privatization projects to the Fund of National Property, including 674 cases in which the transformation has been completed; some 1,198 cases are in progress within the fund. Some approved competitive projects are being worked into basic projects, and some basic projects are being updated, for various reasons. All of this has an influence on the difference between the number of projects that have been approved by the ministry and the number transferred to the Fund of National Property in their final stage.

At the present time, the Ministry for the Administration of National Property and Its Privatization of the Czech Republic is approving privatization projects that are intended to assure an adequate supply of such projects for the second wave of coupon privatization. In the opinion of one of the deputy ministers, the supply side of the second wave of coupon privatization should be ready sometime in the middle of this year.

### **\* National Property Fund Remains Largest Stockholder in CR**

93CH0358D Prague HOSPODARSKE NOVINY in Czech 28 Jan 93 p 16

[Interview with Jan Princ, deputy director of the Executive Committee of the Fund of National Property of the Czech Republic, by (kk); place and date not given: "We Will Be More Like Administrators—The Fund of National Property of the Czech Republic Continues To Be the Largest Stockholder Involved in Coupon Privatization"]

[Text] [kk] Despite several efforts to transfer ownership rights to real owners, the Fund of National Property of the Czech Republic remains the largest stockholder based on coupon privatization. What the actual nature of the entire portfolio is and how the fund intends to handle it was what we asked Jan Princ, deputy chairman of the Executive Committee of the Fund of National Property of the Czech Republic.

[Princ] How we can make use of securities in our portfolio is determined for us by the privatization project of a specific corporation. Some securities are destined for sale to previously identified entities, and some are set aside for the Restitution Investment Fund. A part of the securities is retained as a reserve for agricultural primary production through 1994 or 1995 and a part designated for purposes of subsidizing the Fund of Hospital and Health Care Insurance. Some securities are destined to be transferred free of charge to communities, some for indemnifying authorized individuals within the framework of restitution, and so forth. In all of these cases, the privatization project identifies the owner. "Leftover" securities are those that remain to be freely used within the Fund of National Property. Of the overall number of securities, they amount to approximately 10 percent.

[kk] The "leftover" category then includes securities that were not sold in the first wave of coupon privatization and that are worth approximately 14 billion korunas. What will happen to them?

[Princ] Those securities are destined for sale to investors in the financial market. We shall use public competition to select existing institutions (in sales involving larger quantities through banks; in sales involving smaller quantities, we shall turn to brokers or traders in securities), who will sell these securities for us under the most advantageous conditions.

[kk] Let us cite an example. Let us say that, in a specific stock corporation, 10 percent of the securities were left over as unsold during the first wave of coupon privatization. In selling those securities, will the management of this corporation, for example, be advantaged?

[Princ] For the time being, we have not considered offering a certain group of securities to specific entities. We are preparing material for consultation with the



economics ministers, in which we want to announce that we shall be selling securities principally through the market and that the criterion as to whom we shall sell to will be the best financial effect for the fund.

[kk] Why will the unsold securities from the first wave of coupon privatization not be offered for sale in the second wave? After all, it would be sufficient to merely list the corporations with a small number of sold securities, following the first wave on the supply side of the second wave.

[Princ] Our efforts are aimed at finding new real owners as rapidly as possible. If we left these securities to the second wave, we would continue as the sole owners for another year or a year and a half, when it is expected that the new owners of the second wave of coupon privatization will become known.

[kk] Which securities will the fund keep, and how will it care for them?

[Princ] The securities the fund must retain are identified in the privatization project. In areas where the maintenance of state influence is of interest, that is accomplished either through the assistance of a controlling package of securities (primarily at monetary institutions) or in the form of golden securities or securities with special rights (for example, in the balneological industry, in the armaments industry at the Skoda Plant in Plzen, and so forth).

[kk] Which of these two possibilities is more advantageous to the fund?

[Princ] If I own a controlling package, I can use my vote to influence any decision by the General Assembly. In the case of a golden security, the other stockholders can outvote me; the fund will "only look out for certain items" in this manner. It must be realized that it is not

the fund that wishes to decide the fate of an enterprise. Therefore, wherever we have a controlling packet, we shall be implementing state influence through other entities that we will entrust with ownership rights. For example, the Czech energy enterprises have already been entrusted to the Ministry of Economics, mining enterprises have been entrusted to the Ministry of Industry and Commerce, and so forth. In other words, they have been entrusted to specialized organs. The entrusted organ then executes stockholder rights for us—for example, it acts for us at general assemblies. However, the securities are owned by the fund that, for example, is the recipient of any dividends.

[kk] Sometime between April and May the real owners of securities resulting from coupon privatization will become known. The securities will thus be transferred from the fund to their hands. What will the future activity of the Fund of National Property of the Czech Republic be then?

[Princ] The fund must establish stock corporations for the second wave of coupon privatization. It is anticipated that the volume of property will be approximately the same as that in the first wave but that there will be a far greater number of entities. We also administer the property of approximately 400 corporations that were expected to be part of the first wave of coupon privatization but that, in the end, were not included in the offering. We must take care of installment sales. We must resolve court disputes regarding inadequately defined property. Even the sale of securities will be a longer-term affair. The second wave of coupon privatization should be the last; it should be followed only by individual privatization. We do not know whether we shall be the ones to solve this or whether some other institution will be involved. The fund thus faces a lot of work. In the future, it will change the character of its activities; instead of exercising ownership rights as a stockholder, it will more likely change to administering property.

**\* German Daily Faults Hungary's Foreign Policy**

93CH0329A Frankfurt/Main FRANKFURTER  
ALLGEMEINE in German 11 Jan 93 p 10

[Article by Viktor Meier: "Consistent Only in a Westerly Direction—The Hungarian Government Is Not Doing Enough To Promote Good Relations With Its Neighbors"]

[Text] Budapest, Jan—Like no other former communist country, Hungary is making consistent efforts since the power change to approach West Europe and to be taken on as a full member of the community of the West as soon as possible. The fact that this is only partially successful and is only happening with delays is attributable to the restrictive conduct of the Western countries. The Antall government, by being one-sided, has also contributed to the fact that Hungary has acquired only limited foreign policy advantages as a result of its freedom of action. The West placed little value on the fact that Hungary attempted to ease its march into West Europe by sharply restricting itself with respect to its individual neighbors to the east. The West had no desire for a new Iron Curtain in the former communist East Europe. Second, the Antall government gave too little consideration to the fact that Hungary continues to have substantial interests in the former East, both economic and also those having to do with minorities. For too long a period of time, Hungary's "Ostpolitik" was restricted to mobilizing western institutions against its neighbors—with a view to its minorities in Romania and all the way through the Gabcikovo problem—and to attempting to exert pressure on these neighbors in that way. Direct dialogue with them was inadequate.

The visit by Russian President Yeltsin in November appears to be signaling a change here. In addition to the symbolic apology for putting down the 1956 popular uprising, he brought with him the settlement of all disputed bilateral questions. With reference to the heritage left behind by the departed Soviet troops, it was agreed that neither side owed the other anything. The open debts of the former Soviet Union, which amount to \$1.8 billion, will be eliminated by Russia delivering \$800 million worth of military armaments—"spare parts," it is said—and offering prospects for delivery of such natural resources as oil and natural gas to cover the rest.

Hungary will now receive the opportunity of adapting its broken-down military power to current requirements to a certain extent. Germany has also stated its readiness, after much hesitation, to deliver military spare parts to Hungary from the inventory of the former "Volk-sarmee." Within the region where the security vacuum was left by the West, the thinking everywhere is again beginning in terms of traditional military categories, it is important for Hungary to strengthen its defensive capabilities. The fact that Hungary is forced to let itself be blackmailed on account of its minority in Vojvodina by the Serbs creates a difficult situation. The disarmament

negotiations, which at one time involved the conventional forces of NATO and the Warsaw Pact, failed to consider the threatening potential of the former Yugoslav Army.

A third result of the visit by Yeltsin is, on the other hand, more questionable. It has to do with a joint declaration of intentions regarding minority questions. Responding to the ironic question as to whether Hungary was thus possibly aiming at its distant relatives left behind the northern Ural Mountains—the Woguls and the Ostyaks—one hears the seriously intended assurance that this is not the case. What is at stake here, moreover, is a manifestation of a "joint interest" because both countries have strong minorities living in neighboring countries. Although Hungary might anger and disturb the Romanians by this, there is also the danger of becoming an accomplice in the doubtful Russian protection policy involving Russians in other states of the Union of Independent States.

The Hungarian opposition, primarily the Young Democrats (Fidesz), admits the existing weaknesses of Hungarian foreign policy and primarily the tendency of expecting the West to solve all problems. Of course, it says, the alternative to this "West policy" could move dangerously in the direction of a purely "Hungary-centric" policy of the nationalists surrounding the right to Csurka. The latter also does not wish to hear too much about a "dialogue" with the neighbors. The opposition parties, ranging from the Young Democrats through the Socialists, meanwhile express the opinion that Hungary must neither wait for nor trust in the "West integration"; there is an alleged need to organize in the "forecourt," even though this may only be intended as a provisional measure. Hungary still does about 21 percent of its trade with the former Soviet Union. According to the chairman of Fidesz, Orban, such multinational economic organizations like the Comecon were just as unsustainable as the Warsaw Pact; it would also be difficult to create a meaningful free-trade zone with the countries of the Visegrad Alliance now that the bilateral trade with Poland and Czechoslovakia has been allowed to drop virtually to zero.

The ongoing dispute regarding the Gabcikovo power complex, which is not very successful for Hungary, appears to vindicate the critics of Hungarian foreign policy. With significant participation by Antall, the Hungarian parliament adopted a resolution according to which the only solution acceptable to Hungary is the halting of all work and the complete "liquidation" of the entire project. It was hoped that trade with Prague could be maintained and the Slovaks were not considered capable of taking things into their own hands at all. When this turned out to be wrong, Hungary mobilized the European Community as a "referee" instead of attempting to take matters up with Bratislava directly. To demand that Slovakia simultaneously capitulate in the face of Hungary and the European Community as a virtual blessing of its independence, to require Slovakia

to forego all electric power from Gabcikovo, and to pay a lot of money in addition, appears to be politically absurd.

Hungary can likely not undertake much vis-a-vis Serbia, but with respect to Romania the Hungarian opposition feels that there are still sufficient direct channels in order to bring about improvement to benefit the Hungarian minority in Romania. According to these opinions, these channels include, last but not least, the noteworthy good relationships between the heads of the armies of both countries. The politicians of the "Hungarian Democratic Forum," on the other hand, appear to be expecting salvation more from the Euroapparatus in Strasbourg, from a European ethnic minority convention, or some similar development; this does not please the Romanians too much and results in reactions in Romania which, for their part, are not helpful. In Cluj, where the nationalistic presidential candidate Funar rules as mayor, in addition to other Hungarian inscriptions, the inscription on the statue of King Mathias Corvinus was recently replaced by a Romanian inscription; a stronger military presence has been felt in the Szeklerland region and, at the border, permanent and obviously also partially deliberate chaos rules on the Romanian side. These are things which appear to be unnecessary and could be eliminated, despite the fact that the position of Iliescu and his party is not easy, particularly in Transylvania. The party of the Hungarian minority in Romania is attempting to establish a "direct wire," but the promoters of a pragmatic orientation in its ranks should be able to come up with an occasional success in order to persist in their line. The main representative of this party, Domokos, is scheduled to retire. On the other hand, Bischof Tokes recently said in Oradea namely that neither the party of the minority nor Budapest are seen as being particularly helpful. The reopening of the Hungarian Consulate at Cluj has, in the meantime, become so prestige-burdened that only pragmatic solutions are likely to be considered here, as well as in regard to the university. It is likely to be not too helpful if Budapest is holding to formal positions here.

**\* Csurka Calls Opposition 'Enemy'; Elek Responds**

**\* Csurka's Views**

93CH0352A Budapest NEPSZABADSAG in Hungarian  
11 Jan 93 p 4

[Unattributed article: "The Opposition Is the Enemy"]

[Text] When at the conference we asked Istvan Csurka where he had gotten the idea that the MDF [Hungarian Democratic Forum] alone was qualified to represent the nation's interests, he replied: They know their adversaries, they know themselves, and they know the needs of the Hungarian people. To our interjected reminder that the MDF today boasts altogether 27,000 registered and 10,000 active members, who make up merely a few thousandths of the total populace, Csurka retorted that

their membership had been no larger in 1990, when they won the elections. "This is how this society works and has always worked, except during the periods when the state party had rounded up a million members, handed them a red membership booklet, gave them an apartment, decorations, and lucrative pensions, which we are still paying for," he said. The MDF, he added, would never boast 800,000 members; however, in his opinion this does not mean that it cannot be the nation's leading force and governing party "till the end of time if necessary."

Csurka reiterated his view of the opposition as an enemy to contend with, asserting that the publication of the book *Kirekesztok* [Gatekeepers] and its portrayal of him could only be described as a "manifestation of a dangerous assault on the nation." He expressed disappointment that the chief prosecutor had seen no grounds for ordering the book to be pulped or "fed to the fire" or to seek severe penalties against its creators.

When we mentioned that at a recent MDF event copies of the officially banned book *Csendorsors* [Gendarme Fortune] were being sold for 700 forints each, Csurka responded by asking "aren't your figures a bit high?" He then went on to add that the selling of banned books was indeed regrettable.

**\* Elek's Refutation**

93CH0352B Budapest NEPSZABADSAG in Hungarian  
11 Jan 93 p 4

[Unattributed article: "The Opposition Is No Enemy"]

[Text] Istvan Elek, one of the leading personalities of the liberal wing of the MDF [Hungarian Democratic Forum], had considered it only natural to attend the 2d national conference of populist-national circles and listen to the presentations made there. Speaking to NEPSZABADSAG and MAGYAR HIRLAP, he made it clear that he had been curious to see what they were intending to turn the MDF into. Elek disagrees with Istvan Csurka's assertion that "the opposition has become an enemy." In his view, no democratic politician can make such statements. Csurka had used the publication of the book *Kirekesztok* as grounds for renaming the opposition enemy; however, Elek sees no connection between the two whatsoever. Hungary's Jews have distanced themselves from this book, he pointed out.

According to the representative, recently there has been a marked shift within the MDF toward the right. Since the government has not been confronted by the same kind of severe criticism that had been leveled at it previously, the prime minister has made only indirect attempts to criticize the populist-national circles, he claimed. For apart from his comment concerning working capital, he has not criticized what has been said in specific terms.

Moreover, Elek thought it was strange "that at an event held by a party calling itself democratic they were selling banned books," including *Csendorsors* and other anti-Semitic publications.

On the basis of what he had seen at the conference, Elek said that at the national congress a lot would depend on the tone of the debate about the bylaws, and on the manner in which the national presidium would be elected. According to Elek, Csurka has not precluded the possibility of running for the chairmanship. Should he opt to do so, however, people would be forced to choose between Jozsef Antall and Csurka, or others. While this would not threaten Antall's leadership position, he stressed, it "would at least represent a break in the continuum." Csurka could not win, but he would get many votes. This would also indicate that a significant segment of the membership favors Csurka's line over Antall's policies.

Reacting to statements that the MDF must retain control beyond 1994, Elek agreed that it would be important to win the elections, for only then could their program of political change fully assert itself. "However, it does make a difference what kind of an MDF we are fielding to win the elections. For the kind of MDF which the party is currently moving to become has less and less of a chance to win. If it continues to trim its electoral base and therefore its own membership, alienate people who contributed to its past successes, and turn potential supporters into adversaries, the MDF has no chance of succeeding," said Elek.

#### **Kupa on Davos: Hungary Still Viewed Favorably**

93CH0362A Budapest MAGYAR HIRLAP in Hungarian 2 Feb 93 p 1

[Unattributed interview with Finance Minister Mihaly Kupa; place and date not given: "Mihaly Kupa: Hungary's Position Is Still Good"]

[Text] "The most important phase of the Davos forum on global economy, the one in which invited leading politicians participated, ended with considerable success for Hungary," said Mihaly Kupa in his airport statement on his return from Davos. The minister of finance told us that Raymond Barre, former French prime minister and minister of finance, in summarizing the accomplishments of the first three days, emphasized three factors in connection with Central and Eastern Europe: One was that countries with successful reforms must be assisted; another that investments in the region should be increased, and the third that products from the "Visegrad Four" [Poland, Hungary, the Czech Republic, and Slovakia] ought to be accepted by Western European and global markets. "The primary impression I received at the forum was that Hungary's position is still good," emphasized the minister. He added that members of the "Visegrad Four" should not compete against each other when it comes to gaining membership in the European Community, especially in view of the fact that the West

"would not buy" such a move. In addition to his positive impressions, Mihaly Kupa also expressed his opinion that at the Sunday evening plenary session, where Poland's prime minister, Madame [Hanna] Suchocka, the Czech Prime Minister [Vaclav] Klaus, [Arkadii] Volskiy, the copresident of the Russian Civic Union, and Gyula Horn, the president of the Hungarian Socialist Party, were in attendance, and the Swedish Prime Minister Karl Bildt guided the discussion. Hungary suffered a defeat on points. It shocked the minister of finance (and, as he reported, everyone in the audience) to hear Gyula Horn speak in Russian, in spite of the fact that English was the official language of the forum on global economy, and a Hungarian expert interpreter was available to Gyula Horn. Discussing details, Kupa said that the debate substantially focussed on the great costs associated with the economic transition, and on ways of reconciling ourselves to those costs in accord with society. Klaus and Suchocka stated that no one will cover these expenses for the countries involved, so that it is unrealistic to count on external resources.

In contrast, Gyula Horn said that the West must set up a clear system of preferences as to what social policies should be followed by the individual countries in their transition to market economy, and in exchange for this, the West should offer some assistance. According to Mihaly Kupa, this would be a model resembling the Council of Mutual Economic Assistance, rather than free economy. According to the minister of finance, Klaus and Suchocka made this point "with a slam," thus dealing Hungary a defeat on points, which did not serve the country's interests. We also learned from the minister of finance that in Davos he met with Erb, the deputy director of the International Monetary Fund, and they concurred that the agreement between Hungary and the IMF, valid until 1996, should be signed. They also agreed that the prime criterion should not be one figure, the ratio of budgetary deficit to the GDP, but rather the development of an economic structure that ensures healthy economic growth. In connection with this, the minister of finance said that he knew nothing of Prime Minister Antall's intention to invite one of the IMF's highest-ranking officers to Hungary. In the past few days, several economic policymaker and politician mentioned that, due to political reasons, the government would introduce new artificial measures to accelerate its program. Concerning this, Mihaly Kupa stated that this could not be done at this time. In his opinion, no one is willing to sacrifice important objectives for short-term results, since such an acceleration could have a disastrous outcome. As the minister of finance stated, the only course is to place the economy on a course of stable growth.

#### **Klaus, MSZP's Horn in Verbal Clash at Davos**

93CH0362B Budapest MAGYAR HIRLAP in Hungarian 2 Feb 93 p 11

[Article by Eva Czelnai: "Battle of Words Between the Head of the Czech Government and Gyula Horn in



Davos"—supplemented by an unattributed interview with Gyula Horn, president of the Hungarian Socialist Party, in Budapest; place and date of interview not given]

[Text] A lively battle of words ensued between Vaclav Klaus and Gyula Horn during the Sunday discussion in Davos, where the topic was: What social price must the countries of reform pay for their transformation? Gyula Horn stated in his speech that the state and individuals ought to pay the price of transformation jointly. In the region of East Central Europe, the only feasible course is to create a social market economy, and to ensure minimal social benefits as the right of each citizen. As an example, the state could create new employment opportunities by financing investment in the infrastructure. As for Western governments, they could stimulate countries of the region to achieve these goals by preparing a comprehensive program package in this spirit, and make the realization of said program a condition for offering material assistance. After all, the West should realize that there is a threat of explosion brought on by social destabilization. In reacting to this, Klaus hastened to observe that anyone who thinks that a transition can be accomplished without a hitch is a dreamer. In the countries of reform, unemployment is not caused by factors like those that exist in Western nations, but by structural changes resulting from the elimination of firms that fail to meet today's challenges. It is similarly a sign of misunderstanding to talk of a recession in East Central Europe: After all, this characterizes the economy in only the countries in which traditional macroeconomic circumstances prevail. In the countries of reform, an entirely different situation exists. A decline in the GDP is a sign of transformation and, looking at it in this light, can be considered a healthy phenomenon. As for Gyula Horn, his is primarily the voice of the opposition; after all, it is their job to be pessimistic. In response, Horn said: "I feel as I were sitting in the Hungarian parliament. After all, the present Hungarian Government is similarly insensitive to social problems. In any event, my voice is not that of a left-wing politician, but of a realist." Since we had heard Klaus say so many positive things about the achievements of the Czech economy, after the discussion I asked him what advice he would have for Hungary, so that it could be similarly successful. He said that the most important thing is to see and define our goals clearly, rather than to build a social market economy, as was recommended by Gyula Horn. In addition, Klaus claims that he heard Horn mention a socialist, rather than a social, market economy. "You should proclaim a clearly defined economic strategy, and find suitable political support for it," advised the Czech prime minister.

#### **Horn: There Is a "Third Road"**

At the Davos forum on global economy, Sunday evening there was an irregular plenary session focussing on the economic and political transformation of East Central Europe, and at times deteriorating into heated arguments. The session, moderated by Karl Bildt, the head of

Sweden's Government, "displayed a contest between a liberal concept that contains conservative elements on the one hand, and a left-leaning or moderate trend on the other," said Gyula Horn, president of the Hungarian Socialist Party (MSZP), on his return at the Ferihegy airport. According to Vaclav Klaus and Hanna Suchocka, the prime ministers of the Czech Republic and Poland, the economic transformation must be completed just as rapidly and just as radically as the political one, and therefore social considerations cannot be permitted to cause any hesitancy. "I, on the other hand, feel (and Arkadii Volskiy shares this view) that environmental and social considerations make a more gradual transformation more realistic in the region," said Horn in describing the primary distinction between the various positions. Due to the social tensions arising from the transformation, the president of the MSZP considers it unavoidable for the state to perform certain functions in the reform process. Klaus' view, by contrast, is that the state cannot take on any additional responsibilities toward individuals. In describing his party's position, Gyula Horn pointed out that the totalitarian system was not the only irregular phenomenon; the transition period must also bear the signs of uniqueness. As a consequence, Horn considers it imperative that we develop a specific model, a third road, suited to the region's requirements.

#### **\* Bethlen, Boross Evaluate MDF Congress Results**

*93CH0353A Budapest NEPSZABADSAG in Hungarian  
25 Jan 93 p 4*

[Unattributed interviews with Istvan Bethlen, until recently a member of the Hungarian Democratic Forum's presidium, and Justice Minister Peter Boross, newly elected member of the presidium; place and date not given: "This Is How They Saw It"]

[Excerpt]

#### **Istvan Bethlen**

"Were you surprised by the outcome of the elections?" we asked Istvan Bethlen, who was not included in the new presidium.

[Bethlen] No. On Friday, after I had finished the first sentence of my speech, I already knew that what I wanted and would say would take at least a hundred votes away from me, particularly considering the amount of criticism I have levelled at the content of the Csurka essay since its publication. Of course, things could have turned out differently had the presidium, as I had also suggested, distanced itself in time from Csurka, taking a firm stand behind Jozsef Antall.

[NEPSZABADSAG] In your estimation, to what extent was Csurka's position strengthened at the national congress?



[Bethlen] Significantly. Let us take a look at what has happened here. Csurka had chosen not to compete with Antall for the chairmanship because he had recognized, and time has since proven, that he stood no chance against him. He had retreated, with the concocted explanation that the reason why he had chosen not to compete for the chairmanship was because the candidates could not announce their platform before the election. This is a joke. Csurka has been promoting his program on the pages of MAGYAR FORUM since last August. The question, of course, is what the new presidium members will do next. Will they take Csurka's side, or will they concede that it is more difficult to govern and act than to talk about it?

[NEPSZABADSAG] With 14 months before the elections, was this a positive outcome for the MDF [Hungarian Democratic Forum]?

[Bethlen] No, in fact, it was a very negative development. In a letter to the membership, Jozsef Antall had asked that they elect a presidium that would support him, and included members that would head in the same direction. During the period between now and the elections the presidium can be of enormous help to the government, but can also cause a great deal of damage by blocking its decisions.

#### Peter Boross

Interior Minister Dr. Peter Boross had joined the second district organization of the Hungarian Democratic Forum in August of last year. At the party's Sixth National Congress he was elected into the presidium by an overwhelming majority of the votes.

[NEPSZABADSAG] Many consider you to be a tough and confident politician who is a reliable and, compared with Csurka, more presentable representative of the MDF's policies.

[Boross] You would need to ask the delegates about why so many of them have put their faith in me. People know that I am not one to become involved in internal struggles. I hope that I have succeeded in lowering the intensity of emotions out there.

[NEPSZABADSAG] In the course of the debate there was much criticism aimed at the economic police, charging that people in this country today can steal or cheat whenever and as much as they want to with impunity. In his speech Secretary Lajos Fur called for the eradication of the vast corruption that has taken hold of this country.

[Boross] It was not primarily from the point of view of law enforcement that the subject of undesirable economic phenomena was raised. The speakers were criticizing the shortcomings and inefficiency of our systems and organizations of control. For with a few exceptions, the police only investigates reported economic crimes, and I can tell you that there have been very few such reports. There are many who claim to have knowledge of

this or that, but when pressed for specifics only a few can deliver. And to launch a legal criminal investigation we need to have something more solid than "I have been told."

[NEPSZABADSAG] Some of the delegates have been overheard in the hallway saying that "after we have elected Boross into the presidium we can expect the opposition to intensify its attacks on the police with or without justification, only to provoke the minister...."

[Boross] In Western Europe having an interior minister who is the head of one of the governing parties or is a member of the party leadership is a natural phenomenon. I do not think that anyone can accuse me so far of infusing politics into the life and work of the police. [passage omitted]

#### \* Finance Minister Kupa on Economic Policy

93CH0377B Budapest FIGYELO in Hungarian  
14 Jan 93 pp 14-15

[Article by Finance Minister Kupa: "Consistently and Flexibly—Is There a Need To Change the Basic Principles?"]

[Text] *The structural goals of the four-year economic program—the "Kupa Program"—are the establishment of a market economy, the development of the necessary institutional system, and the liberalization of the economy; its macroeconomic goals are the stabilizing of the economy and the establishment of conditions for healthy growth. In releasing the program we stressed that what we prepared was not a four-year plan, and that therefore the forecasts were incorporated only in an appendix. The program had to be evaluated not on the basis of achieving the predicted figures, but on grounds of realizing the indicated structural and macroeconomic goals. Let us review these goals, and at the same time, let us examine what changes would be justified.*

The predominance of economic management based on private ownership is an important structural goal. The fact that the number and performance of small entrepreneurial ventures is rapidly increasing in a generally recessionary economy and that the privatization of state firms has also gained speed are encouraging signs. Essentially, the ownership structure of the economy is changing in a direction consistent with the program. A further acceleration of privatization is the condition on which the start of economic growth is based. Cutting the time it takes to complete the already started privatization transactions is of particular importance, because during the waiting period to change ownership the enterprises necessarily manifest a "wait-and-see" attitude, do not initiate new developmental projects, and their worth frequently decreases.

Privatization strategy has been changed several times during the past period; economic policy endeavored to react flexibly to lessons learned in the course of testing

theoretical concepts in practice. Decentralized privatization has achieved greater preponderance in response to difficulties found relative to state-initiated privatization. Means to establish domestic demand for privatization gradually became more modern; thus the MNB [Hungarian National Bank] privatization loan has been discontinued, terms applicable to E-Loans [small-business loans] have become more favorable, and an opportunity has been provided to privatize through leasing and to pay in installments. At the same time these changes were consistent in the sense that finding an efficient manager/owner was the purpose of privatization, which, in turn, presumed that investors acquiring property in the course of privatization would assume real risks, and would have to—at least to a certain extent—invest their own capital in the enterprise. Methods designed to stimulate domestic privatization demand must be greatly emphasized in the development of a privatization strategy, but it would be unjustified to surrender the principle that the efficient operation of property is the most important goal of privatization.

Increasing the weight of operating capital in the Hungarian economy is also an important structural goal. Last year, \$3.5 billion—more than expected—worth of capital was invested in Hungary. Continued interest in Hungary on the part of foreign capital, including participation in privatization and green-field [as published] investments remains a strategic goal.

In certain cases the question arises whether the increased weight of foreign capital could lead to the outflow abroad of an ever-increasing part of income produced by the Hungarian economy. The fact is that irrespective of whether an entrepreneurial venture is foreign owned or Hungarian owned, most of the income produced by such an enterprise remains in Hungary in the form of wages, fringe benefits, and taxes by all means. Taxed profits which could be removed from the country by a foreign owner represent only a very small portion of the income generated. But this does not necessarily occur either, because foreign owners frequently reinvest their earnings in Hungary. This is another reason why it is important to establish an economic environment that preserves an interest in locally reinvesting the income produced in Hungary. At the same time, the possible withdrawal of taxed profits is also more favorable from Hungary's standpoint than having to pay interest, had this income appeared in the form of a loan. One way or another, foreign investments generate excess income in Hungary, most of which remains in Hungary.

Establishing a liberalized economic environment is a particularly important goal. Under such conditions, rational decisions made by entrepreneurs are not distorted by various administrative obligations, capital moves freely in Hungary, and so do imports and prices. In this regard the changes which enable the utilization of resources based on efficiency consideration were, in essence, completed in 1992.

Establishing the legal framework of a market economy, and through that the strengthening of financial discipline, has been an important strategic goal. Laws and institutions that were most important from the standpoint of the functioning of a market economy have been established during the past two years. The bankruptcy law, the accounting law, and the banking institutions law greatly contributed to the fact that the "soft budget limits" that characterized socialist enterprise management for decades have ceased to exist, and that financial discipline has improved. The practical operation of these laws has, of course, brought to the surface a few, unforeseen problems which must be responded to by modernizing these laws; nevertheless, there is no need to change their fundamental goals.

Reducing the role played by the state in the economy is another strategic goal. During the past two years the government has consistently observed the principle of noninterference with enterprise management decisions. The freeing of capital and human resources based on the termination of activities that were viable under artificially created conditions only, and the transfer of those to efficient fields of endeavor capable of developing takes time; unemployment increases as a result and the income producing capacity of the economy declines. Under such circumstances every East European country has advanced recommendations encouraging increased state interference with economic processes. (Russia is the most recent example in this regard.) Yet, the growth of our western exports, exceeding all expectations, goes to prove that enterprises adapt to economic conditions substantially faster and better without state interference. For this reason, state interference may be justified only in exceptional cases, after evaluating the circumstances from many vantage points.

From among the macroeconomic goals the Kupa Program regarded the stabilizing of the economy as most important, and within that it attributed special significance to restoring the external balance and to reducing inflation. The external balance is more favorable than expected; during the past two years the balance-of-payments deficit was smaller than planned by about \$2 billion. This improvement is also reflected in increased foreign exchange reserves; the amount of foreign exchange reserves has exceeded the \$4 billion level in 1992, as compared to the projected amount of \$2.4 billion. Preserving the external balance continues to remain an important goal; nevertheless, we need not endeavor to further increase the balance-of-payment surplus.

The inflation rate has declined consistent with expectations, and we managed to prevent an acceleration of inflation resulting from the onetime boost to price increases that flowed from the adoption of world market energy prices and the downscaling of price supports. Nevertheless, the rate by which prices increase is still high, and the economy will be fully stabilized only after further reducing the inflation rate.

The goals of stabilization could be attained only as a result of keeping the increased domestic demand in line with economic performance. Thus it was possible to avoid a situation in which demand in the economy fueled the inflationary pressure, in which a faster increase in domestic demand than the increase in exports deteriorates the balance of payments. Regulating domestic demand pursuant to such principles serves as a precondition for healthy economic growth.

Despite the above-mentioned achievements, we were unable to catalyze economic growth in 1992. Many people assert that restrictive fiscal and monetary policies are mainly to be blamed for the economic decline. Based on facts, however, one can state that neither the fiscal nor the monetary policies were restrictive in Hungary in 1991 and in 1992. The state household deficit was substantially larger in 1991 and 1992 than originally perceived, and precisely in order to prevent a further decline in the economy, domestic demand has not been tightened by further reducing state expenditures or by increasing the tax burden. In 1989 the total domestic demand increased by 0.6 percent, within that, demand generated by the state household declined by 4 percent. In 1990 the total domestic demand declined by 4 percent, while demand created by the state household declined by 7.3 percent. In other words, a truly restrictive fiscal policy has been enforced during these two years. In 1991, however, along with a 10.5-percent decline in total domestic demand, the demand generated by the state household declined by only 6 percent. Accordingly, whether we view these figures, or the evolution of the state household deficit, we can prove that budget policies were not restrictive beginning in 1991.

Since 1991, monetary policy cannot be regarded as restrictive either. The volume of money increased in that year by 25 percent, while the nominal increase in the GDP amounted to only about 13 percent. In terms of real value the volume of funds loaned to the economic sphere remained level, while production declined by about 10 percent. Undoubtedly, interest rates increased substantially in 1991, but in 1992 they began to decline. In 1992, too, the volume of money in circulation has increased substantially faster than the nominal GDP; substantial reserves exist in the banking system. Thus all indexes characteristic of monetary policy contradict the assumption that restrictive monetary policies prevail in the economy.

For this reason we must look elsewhere for the causes of economic decline. The 1991 decline is mostly due to external effects; it is the consequence of a 50-percent decline in East European trade, but the impact of reduced domestic demand can also be seen, and, in 1992, since the decline in eastern exports has come to a halt, in response to a further rapid growth in western exports, and considering the fact that combined total exports have increased, the chief reason for the economic decline

was the decline in domestic demand. Substantial micro-economic changes support this decline.

The main reason for the decline is the reduction in demand for accumulation. This suggests that a change has taken place in the previous enterprise conduct, which endeavored to invest available resources to develop enterprise activities irrespective of the efficiency and profitability of such investments. As a result of the increased number of entrepreneurial ventures and the liberalizing of imports, a supply market has evolved in most fields, and enterprises adapted to this kind of market by reducing their inventory levels.

A surprising propensity to save on part of the populace also led to the decline in domestic demand. The more or less 7-percent savings rate as a proportion of disposable income in the 1980's has increased to 20 percent, and has increased from 5 percent to above 10 percent as compared to the GDP. This phenomenon, too, can be explained in part by the end of a shortage economy, the elimination of shortages in goods that prompted the immediate expenditure of income before, and in part by the substantial variation that occurred in individual income—the emergence of a growing, substantial stratum capable of saving money. (Unfortunately, the latter also means that the ratio of the stratum that is becoming poorer has increased.) Individual income in 1991 and 1992 has essentially followed the prognosticated course; accordingly, greater savings materializing from the given income necessarily reduce the consumer demand.

An analysis of the causes makes it apparent that an economic policy that increases exports and expands domestic demand through natural means continues to best serve economic growth. The balance of payments surplus indicates that the level of domestic savings is higher than that of domestic accumulation in the Hungarian economy. The debt service does not warrant this situation. Along with the huge demand for investment in Hungary, at least the domestic resources should be fully utilized in Hungary. The balance between savings and accumulation must be achieved not by reducing savings, but by increasing accumulation, and within that, by fixed capital investments decisively for the purpose of the technological renewal of the economy, the development of the infrastructure, and the expansion of the export potential. Investments must grow in natural ways, based on entrepreneurial decisions that enforce profitability considerations. This purpose is served by measures improving access to credit, like the establishment of an institution that guarantees loans, the pursuit of anti-inflationary policies that result in reduced interest rates, and the development of a "credit consolidation" mechanism designed to reduce the margin between interest earned on deposits, and interest paid on loans. (The fact that banks must set aside substantial targeted reserves to cover bad loans, and that these reserves are obtained as

a result of this broad interest margin, greatly contributes to the difference between the two types of interest rates.)

Based on all of the above, I feel that the goals of the Kupa Program need not be changed. Flexibility demands only a rethinking of the order of priority of the goals, and of the methods applied.

**1992 Industrial Production Volume Index<sup>1</sup>**  
(in percentages)

January	99.0
February	103.5
March	102.0
April	99.5
May	98.5
June	101.5
July	100.5
August	99.0
September	104.5
October	103.5

<sup>1</sup>Adjusted to account for seasonal effects (Dec 1991 = 100%)

**1992 Consumer Price Index**  
(Dec 1991 = 100%)

January	103.10
February	102.65
March	101.95
April	101.40
May	101.50
June	100.60
July	100.30
August	100.80
September	102.40
October	102.50
November	101.60

**1992 Unemployment Rate<sup>1</sup>**  
(in percentages)

January	7.6
February	8.5
March	9.0
April	9.3
May	9.6
June	10.0
July	11.0
August	11.1
September	11.4
October	11.6

<sup>1</sup>Based on the number of registered unemployed persons

**\* Trade Deficit Foreseen for 1993**

93CH0377A Budapest FIGYELO in Hungarian  
7 Jan 93 p 21

[Article by R.B.: "Foreign Trade, 1992-93; What Is Tightening Up? Various Forecasts Predict a Several-Hundred-Million-Dollar Deficit in the 1993 Trade Balance"]

[Text] Here is one of the open questions for the new year: Considering the not overly encouraging global economic forecasts, what market opportunities will be available to Hungarian exporters?

It comes as no surprise that while the Hungarian economy is experiencing an adaptation crisis, and the GDP and industrial and agricultural production gradually decline, the balance of trade, and mainly the balance of payments, improve. This is how professionals at a recent debate described the situation.

When the highly desired upswing begins, however, the external balance can certainly be expected to deteriorate. There is something to this, as they say in Pest.

The more than \$1 billion foreign-trade deficit between 1990 and 1991 was mainly the result of the transition from ruble-based settlement to dollar-based settlement in CEMA trade. Export price levels to socialist countries increased by 55 percent, while imports "became more expensive" by 110 percent. In other words: Exchange ratios deteriorated by almost 30 percent. This could only temper a far smaller—5 percent—change in the exchange ratio with market economy countries, to our detriment. All in all, this caused a larger than 10-percent loss in our 1991 foreign trade.

In 1992, regarded as the first "normal year," along with the expected 8- to 10-percent increase in the value of exports, we can expect only a 2- to 4-percent expansion of imports. The 6-percent increase in the volume of exports is the first such increase since the second half of the 1980's, while imports fell behind the 1991 volume by 2 to 3 percent, as a direct result of a decline in domestic production and in the GDP.

And if investments actually increase pursuant to the Finance Ministry's optimistic forecasts, the result could be an increase in the importation of investment-oriented machinery and materials, and component parts, all of which declined by about 8 percent between 1991 and 1992. Considering the fact that in 1992 these two categories amounted to 60 percent of all Hungarian imports, the upswing would certainly be coupled with an increased trade deficit.

Undoubtedly, the dramatic market switch is the most important achievement of the last two years' external economic developments; as a result of the switch, Hungarian exports to developed market economies increased by 72 percent by the end of 1992, while imports from the same increased by 69 percent. At the same time, however, exports to and imports from the former socialist countries declined by 23 and 26 percent, respectively. Accordingly, along with reduced production and investments since 1988, we managed to gain markets in developed countries. While between 1989 and 1991 the total dollar value of imports at current prices from OECD countries increased by 16 percent, Hungarian exports to the same countries increased by 50 percent.

The luster of this accomplishment is somewhat dulled by the fact that the change was forced by the collapse of the CEMA market. In addition, domestic demand and purchasing power also declined due to the broadly based liberalization of imports. The expected 2-percent deterioration of exchange rates in 1992 reflects only the cost of this change at the national economy level. We know very little about the impact of the market switch at the "enterprise" level. Due to the change to dollar-based settlement alone, exporters capable of holding on to their eastern markets increased their prices in the average by more than 50 percent, and in many cases doubled or tripled their prices. Others lost their markets altogether. And we do not know for how much less they were able to sell the same products in developed countries, if they were able to sell these at all. The switch appears as less successful insofar as the Hungarian export structure is concerned. Based on statistical data, almost half of the past three years' export increments were based on increased material exports to developed countries. But in 1992 commissioned work was the star performer: Of the \$1 billion export increment, more than \$600 million was accounted for by the reexportation of mainly light industry goods processed in Hungary. Thus, increased exports to developed countries could only partly offset the more than 60-percent decline in machinery exports to CEMA countries. As a result of these two developments, the ratio of Hungarian machinery and equipment exports plummeted from about 30 percent in 1988 to 12 percent. In other words, the dramatic increase in convertible currency exports can be traced not to causes related to long-term improvements in competitiveness, but to the collapse of the CEMA market and the transition to dollar-based settlement, the constraint created by the tightening internal market, and the onetime effects of agreements reached by our foreign trade diplomacy, such as the EC agreement on association.

Conditions are not overly encouraging insofar as the future—1993—is concerned. While experts previously counted on a 5- to 6-percent expansion in global trade, more recently they are counting only on a 2- to 3-percent expansion worldwide, and only on a 1.4-percent increase in Hungary's important trade with West Europe, and only a 0- to 1-percent growth in trade with Germany, and do not rule out a reduced demand for imports by this, our largest trading partner.

Insofar as internal conditions are concerned, the real value of money expended for research and development has consistently declined for years. At the same time, the volume of investments has consistently decreased for the past ten years. Without investments we can hardly count on technical and technological renewal.

The impact of bankruptcy and liquidation proceedings on exports is hard to assess. According to estimates, the value of production that would cease in 1993 as a result of bankruptcies and liquidations could reduce exports by as much as \$1 billion. Last but not least, as a result of the 1992 drought that struck our agriculture, we cannot count on repeating the volume of our 1992 grain exports in 1993.

Based on all the above, in contrast to the approximately 10-percent export increment in 1992, this year's value of exports may increase by only 3 to 4 percent. Regarding imports, we must count on an increased import content of our exports, because Hungary's demand for imports is on the increase due to bankruptcies and the narrowing of domestic cooperative relations. The opposite effect is achieved by the reduced demand for producer imports on part of bankrupt enterprises. In summary, a 7- to 9-percent expansion of imports—exceeding our exports—can be predicted.

**Foreign Trade Payable in Convertible Currencies**  
(in millions of dollars)

Country	Exports			Imports		
	1990	1991	1992 <sup>1</sup>	1990	1991	1992 <sup>1</sup>
Developed countries	5,415	6,930	7,900-8,040	4,767	7,574	7,850-8,200
Of which:						
EC	3,300	4,662	5,620-5,720	2,817	4,673	5,040-5,170
EFTA	1,196	1,528	1,620-1,640	1,354	2,151	2,190-2,230
Developing countries	772	853	540-570	864	897	370-420
Former socialist countries	1,057	2,182	2,360-2,390	676	2,450	2,880-3,030
Of which:						
East Europe	954	2,135	2,300-2,320	622	2,404	2,830-2,870
CEMA	473	1,761	1,990-2,010	309	2,254	2,690-2,750
Independent republics	237	1,200	1,200-1,300	277	1,590	1,700-1,750
Total	7,270	9,972	10,800-11,000	6,313	11,082	11,250-11,500

<sup>1</sup> Anticipated

Source: Ministry of International Economic Relations [NGKM]



### Counter Opinion

*The International Competitiveness of Hungarian Exports* published by the Global Economic Research Institute of the MTA [Hungarian Academy of Sciences] reaches more favorable conclusions regarding the adaptation of the three countries—Hungary, Poland, and Czech-Slovakia—in the OECD markets. According to this publication, viewed as a whole, Hungarian exports adapted rather well to the varied changes in demand by individual OECD countries in the external market.

Following the collapse of CEMA one could not count on machinery exports to remain an unchanged share of total exports. On the other hand, 80 percent of the \$520-million export expansion between 1989 and 1991 to the German market consisted of industrial products. Half this volume represented technology and skilled labor-intensive machine industry and electrotechnical products. Based on the authors' calculations, 100 percent of the \$211 million market gain in imports by Austria consisted of exported machine industry products, or, to be more exact: industrial consumer goods. All this, despite the fact that an appreciating forint impeded, rather than supported, the market gain.

### \* Suranyi Calls Hungary's GDP 'Undervalued'

93CH0337B Budapest BESZELO in Hungarian  
16 Jan 93 pp 34-35

[Unattributed interview with Gyorgy Suranyi, former president of the Hungarian National Bank; place and date not given: "Estimates for Hungary's GDP: How Much Do We Have?"]

[Text] *Hungarian readers of newspapers may have had cause to reflect upon the economic evaluations of last year and the prognoses for 1993 that were made public during the past weeks. Quite diverse assessments were published not only regarding the expected growth but also regarding the GDP, which represents actual economic performance. While the officially published per capita GDP is \$3,000, former Hungarian National Bank President Gyorgy Suranyi, one of the leading financial experts, spoke of a figure closer to \$7,000. (To our knowledge, his is the highest of the estimates that have been published.) This means nothing less than a performance by our economy which is twice the dollar value shown in statistics. We spoke with Gyorgy Suranyi.*

[BESZELO] What data is your assessment based on?

[Suranyi] Justifiably, many people expressed in recent times their doubts about the authenticity of Hungarian economic statistics. No one is distorting the figures on purpose, guided by some interests; however, the country is going through such economic and social changes that the methods of statistics that were developed during the past regime have become in part, and by definition, obsolete. I am one of those who think that our GDP is much higher than the official data and, of course, I am not alone. In their surveys, several experts have arrived

at the same deduction. As early as the mid-1980's, the World Bank prepared a comprehensive comparative study on the small European CEMA countries; in that, the per capita GDP in Czechoslovakia, the GDR, and Hungary was determined to be twice as high as the official data indicated. If I remember correctly, in 1985 it put Hungary's GDP, in 1982 dollars, between \$4,700 and \$5,300. Thorough Hungarian-Austrian comparative studies, which have been going on for decades, show similar results. They indicate that Hungary's GDP amounts to about 45 percent of that of Austria. Austria's per capita GDP, exactly indicated in 1991 on the basis of the 1990 dollar-schilling exchange rate, was \$21,000, and even 45 percent of that is higher than the official Hungarian figure of \$3,000. The CIA also arrived a somewhat similar conclusion, placing Hungary's GDP in the \$8,000-9,000 range. Common sense also suggests this higher figure. Although the standard of living is not necessarily proportionate to the GDP, a twofold or threefold difference between Austria and Hungary seems realistic nonetheless—unlike the official sixfold or sevenfold difference. A comparison of our GDP with that of other countries, e.g., of Poland, Czech and Slovakia, or Romania, will reveal the same thing. If Poland's GDP is around \$2,500-3,000 and Romania's is \$2,000, then that of Hungary must be much higher.

[BESZELO] Obviously, the difference between the official and the presumably real data can be explained in part by the existence of black economy. The reason why black economy is black is precisely that it is hidden from the state.

[Suranyi] There are many reasons for the distortion. Every GDP is expressed in dollars, based on a certain year's exchange rate. The balance exchange rate and the parity of the foreign currency's purchasing power do not have to coincide, not even in theory or in the long range. In terms of its purchasing power, the Hungarian currency has a higher value than that indicated by the exchange rate. Of course, we calculate performance in forints, and then convert that figure to dollars. On the other hand, when indicated in dollars, the GDP is undervalued. The works of Samuelson or Bela Balassa reveal that it is true, even in the long range, that in countries which lag behind the most highly developed countries, the exchange rate that emerges in the parity of purchasing power is necessarily better than the official rate, even if the official rate is based on the market and thus can be considered balanced. The second main reason for the difference is that, in looking at the services of Subdivision III (nonmaterial services), we in Hungary use different methods than the developed countries do, and this results in a devaluing of that branch's services. And, of course, it does not matter that the sector that remains hidden from statistics carries much more weight in Hungary than in those countries of the developed world with which we compare ourselves. The shadow economy, i.e., tax-evasive economy, carries much more weight in Hungary than in developed market economies. I would mention yet another element that is not significant but which plays a role in the fact that the official

data are so low. At the time when we joined the World Bank and the International Monetary Fund, determining our per capita GDP was no doubt guided by certain aspects which made our GDP meet the conditions necessary for acquiring World Bank loans under better terms.

[BESZELO] What methods did the World Bank use in that particular comparative study of the mid-1980's?

[Suranyi] It tried to screen out the differences resulting from the parity of purchasing power, looking at the results of Subdivision III differently than Hungarian calculations did. In the same study, Czechoslovakia's GDP was put in the \$5,500-6,000 range, and the GDR's GDP was put in the \$6,500-7,000 range. In Hungary, the calculations of Subdivision III amortization are still significantly lower than in developed countries and lower than those of the World Bank at that time. The direct and apparent cost of labor is lower in Hungary than its real cost. And since a significant part of these services lie outside the market, we undervalue the services of Subdivision III.

Of course, all this does not make Hungary a land of milk and honey. And it does not mean that no great social tensions were created in recent years by a decrease of the GDP. The point is merely that its level is not where we assume it to be.

[BESZELO] Does your evaluation of the trends also differ from the official evaluation or do you agree with it?

[Suranyi] My assumption cannot be corroborated by any scientific means; I am only certain that something is amiss, amiss in its size. Information on statistical data has deteriorated in the former CEMA countries—even in Hungary, which had the best system—to such a degree that I cannot answer the question whether trends calculated from various bases coincide. It is certain, however, that the differentiation in income has dramatically increased during the past three to five years.

[BESZELO] What do you expect for 1993?

[Suranyi] Real income and real consumption will tend to stagnate. Month by month, economic performance itself has decreased during 1991, industrial production by and large was at the December 1991 low, the GDP also remained at that level, and this will probably continue in 1993. This may include a 1- to 2-percent deviation. This, in itself, will not be perceptible either in consumption or in growth. The perceptible decrease will perhaps have to halt.

[BESZELO] How large a budget deficit do you expect?

[Suranyi] It would be a great accomplishment if the net deficit of the budget proposal presented to parliament, i.e., that of public finances, could be maintained. That would be a real accomplishment. That will depend on the GDP and on the outcome of the credit consolidation, that will depend on how we can buy off our outstanding Russian debts, for if we choose to adhere to the law on public finances, then both the credit consolidation and the arms purchases must appear as current deficit, i.e., as a loss of balance in public finances. Other than that, I do not believe that, even with a credit consolidation, banks will pay as much taxes and dividends as specified in the budget.

[BESZELO] A last question. What do you think of Vaclav's statement, namely, that the Czech Republic is not interested in the Visegrad group, they have become a Western country, imminent members of the Common Market?

[Suranyi] It is a clever attempt to make the Czech Republic join West Europe as soon as possible. But they do not necessarily have to step on others to do that. However, although not entirely attractive, this attempt is not altogether unrealistic. At the same time, I hope that the competition between our countries will benefit us both in the form of a noble fight and cooperation.

[BESZELO] Thank you very much.

**\* Parys Discusses Party Program, Defense Issues**

93EP0166B Warsaw LAD in Polish No 3, 17 Jan 93  
pp 1, 4-5

[Interview with Jan Parys, leader of the Movement for the Third Republic, by Marcin Masny; place and date not given: "I Play the Hawk"]

[Text] [Masny] Dr. Parys, just who are you? A conservative?

[Parys] The Movement for the Third Republic is a group that is clearly right-wing, with a conservative position.

[Masny] Moreover, could you explain why are you wearing a suit even at home?

[Parys] Our goal is to ensure that society has the opportunity to make choices. The communist forces and the noncommunist left wing, like the Democratic Union, are strong. A right-wing alternative is necessary for the political health of the country. We want to build this on the basis not only of opposition to the left-wing program but also on our own priorities. We want respect for the freedom of citizens, for religion, and for private ownership; the right of every nation to self-government; respect for tradition; anticommunism; love for the national past; acceptance of the role of the elites in society and of the hierarchy in social life; respect for family, enterprise, and nation as the main elements of social structure; rejection of class conflicts; a secure state; acceptance of the necessity of the death penalty for espionage and crimes against life; a pro-Atlantic orientation; respect for truth as a moral virtue... The list of priorities can be expanded. Our political program, which we are currently preparing, will be based on these priorities. In every one of those issues, the left-wing parties have a different view.

[Masny] Why, therefore, are there politicians—for example, from the Christian-Democratic Labor Party—who have a social program that is generally considered to be left-oriented in a proposed coalition?

[Parys] One can speak about superior virtues that connect the coalition partners. A critical attitude to Walesa's Presidency, especially after 4 June, and anticommunism are what link us to the Christian-Democratic Labor Party and, for example, Senator Romaszewski.

In the area of economic solutions, some differences in accent can occur, but, in general, we all agree that extreme liberalism has to be rejected. We can then discuss the permissible intervention of the state.

[Masny] Are you preparing an economic program?

[Parys] Yes. I worked for the Central Planning Administration for several years. I had the opportunity to supervise a big construction enterprise. Matters of the economy are not foreign to me. Meetings of the team of political advisers were devoted to the economic program.

[Masny] Can you list the names of your experts?

[Parys] Until the congress, I must say that their works are an internal matter.

[Masny] How do you define the tradition that conservative Jan Parys cherishes so much?

[Parys] For us, main values are a love for the Polish state and the primacy of the Polish national interest.

[Masny] Does your party invoke the values called Christian?

[Parys] We do not define ourselves as a Christian party because I am against the existence of denominational, regional, or nationalistic parties. There already are a couple of Christian-Democratic parties, but a modern right-wing party, like the British conservatives or the French De Gaulists, was lacking in Poland.

[Masny] European conservatives are trying to form a closer relationship with Christian Democracy, which is the second force in the European Parliament. On what terms can cooperation between you and Christian politicians here, in Poland, be established, if you yourself do not call yourself a Christian politician?

[Parys] I do not see any problem in international cooperation. In a book published in French together with J. M. Bochenski, my attitude to religion is precisely described. But, in our country, the Christian movement is as divided as the national movement. Both tendencies are close to me. But there were no nationwide conservatives. In June, we formed such a group. The idea was met with public understanding, and now some people try to steal it.

[Masny] The word "conservative" can be found in the name of Alexander Hall's party.

[Parys] Mr. Hall tries to follow our path.

[Masny] You do not necessarily agree with Hall?

[Parys] I think he accepts our ideology, but, in reality, he is a follower of Democratic Union politics; this for me is an example of political schizophrenia. For example, he says that the budget is bad, and later he supports it.

[Masny] If you were in the government coalition, you would also be forced to acrobatics.

[Parys] Either I think that something is wrong and vote against it, or I can see that something is good and vote for it. A sane person cannot have contradictory opinions on the same issue.

[Masny] The political discourse that you are revealing now is very passionate. Some people accuse you of being a demagogue, and others speak of some kind of verbal extremism. Is the language you use a part of your character, or, by using it, are you trying to reach people who do not understand subtleties?

[Parys] It seems to me that society should be told the truth. The disease of our political life is the camouflaging

of ideological differences and borders. Any citizen has the right to information about who wants what and who is opposed to what. This sickness of ours is called hypocrisy. Everybody wants to be good to everybody, but, in reality, they want to bite each other. I play the hawk because I do not agree with such style.

[Masny] Your language differed so much from that of Olszewski that he had to separate himself from you. Doesn't Olszewski say the straight truth?

[Parys] Olszewski did not need to separate himself. He wanted to. This way he could show everybody that there are differences in the coalition. He could have kept silent. And my language during public meetings is the language of public meetings not conferences. In terms of content, those whom I attacked did not go to court because it turned out that I had irrefutable arguments. My objections to the Democratic Union presented at that time were correct. Jan Olszewski and I represent different generations, and I am not tied by friendship and prison to people Olszewski has known for many years—like Mazowiecki, for example, or leaders from the Club of the Crooked Circle; people from TYGODNIK POWSZECHNY or the Workers Defense Committee. I can criticize and analyze without any subjective restraints. This gives me a free hand, but it is also my weakness because I do not have any support from any political generation or coalition.

[Masny] I do not think that Olszewski has the support of any political mafia. So, is the external image of the coalition appealing to potential partners in Poland and outside the country? Who will support an internally unstable coalition?

[Parys] That is right. One should say openly that it is not I who separates myself from them but they who separate themselves from me. Each of us has the right to say what he thinks. I have a rule that there are no enemies in the right wing, and I would like to see Olszewski and Romaszewski recognize that the enemy is on the left. Therefore, if someone is trying to expose those discrepancies, it is not I—at least not publically, instead of talking about them behind closed doors. And, during meetings, they talk about nonsense. This is the coalition and not the Polish United Right-Wing Party.

[Masny] Do you see a possibility of cooperation with Christian Democracy or the Polish Christian Democracy, which at this point supports the government? That party should be close to you on economic matters.

[Parys] I see such a possibility, but, at this point, the crucial division is not only ideological but also has to do with participation in the government. We are in opposition to the government led by the Democratic Union.

[Masny] More than a year ago, you told me that you intend to use connections in the Pentagon and at NATO headquarters. You were listed unofficially as a candidate

for the post of secretary of defense. How do you view the matter of potential foreign allies, including political partners?

[Parys] I know many experts on international safety and people who hold important positions in Western armies. Those contacts enabled me to make changes in the Ministry of National Defense, to move from a pro-Russian to a pro-Atlantic orientation. I was known in the West and considered trustworthy.

[Masny] Now, when you are a political activist and not an official, can you say you have allies not only among experts but also among politicians?

[Parys] When I visited the United States, as a private person and as a politician, I was met by Pentagon officials. Their relationship with me did not end when I stopped working as secretary of defense. My opinion, as it turned out, is important to some U.S. Senate committees. They treat me there as a trustworthy person with interesting views. I was invited to the Republican Convention in Houston.

[Masny] When someone is given a meal that is gourmet but not tasty, this person would say that the meal is interesting. Do you use your black and white language in your political consultations? Usually, Western experts and politicians use language other than yours.

[Parys] You must separate the language of public meetings from the language used in discussions. The West can learn a lot from Polish analysts. From our point of view, East-West relations look different somehow. Living in this part of Europe, we see more. And it is not a matter of the form of transmission but of content.

[Masny] Yes, let us talk about content. How do you see current interactions between the main players on the international scene?

[Parys] The West did not have and does not now have a consistent policy toward the former East bloc. Moreover, U.S. interests are often different from European interests. The United States wants to keep NATO; the report prepared by the European Community Commission for the European Council in Edinburgh really predicts a gradual liquidation of NATO. I also think about the statement in Camberley by Sir Leon Brittan, who spoke of the elimination of NATO in connection with the Maastricht treaty. There are discrepancies in the area of defense, and a lack of financial and diplomatic coordination. U.S. diplomacy in 1992 suffered the greatest failure since Yalta. Despite the 40 years of communism, Eastern Europe came to the point that, in some countries of this region, the noncommunist left, followers of the pro-Russian option, took power through democratic elections. An alliance between Social Democrats, the former *nomenklatura*, and the communist secret police was formed. The West does not notice people who have other than left views in East European societies. They took for granted Jaruzelski's theory that says all people who lived in communist times are now infected by

communism. The West based its opinion on communist party officials and revisionists. It seems that Hegel's model, according to which communist and noncommunist groups will mix, wins, as far as changes in East Europe are concerned. And, from my point of view, we are forced to eliminate the communists, those who stole and spied. We cannot build democracy and market economy with them. After World War II, Generals Marshall and MacArthur knew that the United States had to help Europe and Japan, but, at the same time, they made sure that the help did not get into the hands of people who would create totalitarian systems. Communism had its Gestapo men, SS [Elite Guard] men, and Nazi Party members. During the past three years, the West has given huge sources to the architects of the communist system because it does not understand that communism was worse than fascism. Today, the strategies of the West are supervised by mediocrities not by generals.

[Masny] Who from East Europe would you pick as business partners?

[Parys] I would count most on the Ukrainians, especially the Movement [Rukh]. I regret that I could not attend their last convention, though I had an invitation.

[Masny] I understand that your pro-Ukrainian option matches that of Zbigniew Brzezinski in U.S. politics.

[Parys] My pro-Ukrainian views have nothing in common with Brzezinski's views. I hope that the new administration in Washington will notice the specific situation in East-Central Europe. It will realize that this part of Europe and Russia are not united. On the other hand, the European Community is still not open to us.

[Masny] Let us come back to Polish issues. You say that some Polish politicians make decisions dictated from outside the country. From where do your conclusions come?

[Parys] Quite simply, because I worked in the defense department, I know how strong the penetration of Russian espionage in the Polish Army is, how strong, since June 1992, their control over Polish special services is once again. Many higher officers, promoted recently by the president, are working to tie Poland back to Russian influence. We have many facts, like the press campaigns and the planned offensives aiming to break up the right-wing parties. They are simply prepared political provocations.

[Masny] A provocation unmasked is no provocation. What is awaiting us?

[Parys] Unfortunately, one has to persuade witnesses to make public statements, but they are afraid to speak out. Our country is so weak that we cannot settle any matters, not even against those who were responsible for the murder of Father Popieluszko. Officers who begin talking, like General Gotowko, meet only with harassment....

[Masny] What harassment?

[Parys] His car was damaged at night.

[Masny] A former high official who has access to state security documents says unofficially that some facts prove that actions of other foreign services have increased, including actions of our second neighbor.

[Parys] Maybe it does increase. But, at the same time, one should realize that the range of the opposite interests is completely different because it is not the West but Russia that wants to deprive us of independence. The fight for influence in Poland is so strong because control over East Europe will be decided here. The communists know it very well, but the Westerners do not understand it.

#### \* Foreign Economic Cooperation Issues Examined

93EP0166C Krakow TYGODNIK POWSZECHNY in Polish No 4, 24 Jan 93 p 5

[Article by Janusz A. Majcherek: "A Fourth Partner for Bridge"]

[Text] Not long ago, it seemed that Poland had a few alternative or complementary solutions for its foreign economic policy: the Hexagonal treaty; the Visegrad Triangle; the free trade zone with the United States; and, of course, cooperation with the European Community. Today, everything has become more complicated and problematic.

The Hexagonale, despite a change of name to the more respectful Mid-European Initiative, is simply falling apart because of the Balkan war and the splitting of Czechoslovakia. Because of the latter, problems appeared in the functioning of the Visegrad Treaty. The proposals for a free trade zone with the United States have been frozen until the new administration takes over in the White House. Will they come to life again? The EC, busy now working on the Maastricht treaty, has chosen integration with the EFTA [European Free Trade Association] countries as its next strategic goal. The members of the EC did not find time to ratify the contracts on cooperation with Poland that were supposed to begin on 1 January 1993. It seems that, at this point, we do not have partners interested in deeper economic cooperation.

#### Doubtful Regional Prospects

The Hexagonale probably deserves the least attention. The idea of regional groups that would connect countries that have nothing in common except geographical location did not have and still does not have much chance for success. Perhaps some formal association will be formed by it, but it will be strictly declaratory and titular, lacking both practical and economic importance.

The Visegrad Triangle seemed to be a more promising project; some noticed there a similarity to the Benelux countries. But it is hard enough to make two partners



equally interested and involved, and here there were three, and then even four. Poland seemed to be the most interested in integration; Professor Brzezinski even called for the renewal of plans to form a federation with Czechoslovakia. Unfortunately, at the same time, the race for the favors of the EC started, and all three competitors thought they had a chance to win. European bureaucrats coldly brought the hotheads to order, and, under their pressure, the three-sided contacts were made, and the Visegrad group was formalized.

Today, perhaps we and the Hungarians could agree on a common future, but there is the Slovak issue between us. Events like Gabčíkovo have left Hungarian-Slovak relations very poor. We have to forget the Czechs right now. From the beginning, Prime Minister Klaus talked about the Visegrad Triangle as if all of his teeth hurt. Now he is asking openly: Why bother with Poland and Hungary when we have Austria and Germany? We have to wait, then, until the Austrians are willing to remember their poorer Czech relatives, while the Austrians themselves just came to the gates of the European palaces. The Germans, meanwhile, have many problems with the mess of the former East Germany and do not think at all about welcoming further regions encumbered by post-communist debts. If Klaus is not welcomed happily in Vienna and Berlin, which is clearly what he counts on, maybe things between us will somehow work out.

At this point, the free trade zone negotiated by these countries has been born with great pain and does not look promising.

The collapse of Czechoslovakia and the ambitious plans of Vaclav Klaus are not the only obstacles. The main problem, paradoxically, is the economic similarity of our countries. We all have almost the same products for sale; therefore, we are not tempted by the promise that the neighbors will offer us something we cannot get rid of ourselves. When it came to the regulation of the contract on the liquidation of custom fees, the partners began by demanding special exemptions and privileges. Soon, it turned out that the exemptions include most of the trade exchange. The structure of these contracts therefore goes like this: Some limited groups of goods will be excluded from customs fees when the law takes effect; later, customs fees and other barriers for the rest of the trade goods will be gradually decreased, to disappear finally in 2001. And, really, why should one fight the dragon when these countries are to be integrated with the EC at about that time. Why do they need a free trade zone, inside which exchange might be more difficult than that with the outside partners?

#### European Option, U.S. Option

Some time ago, a quite exotic idea appeared among us: an agreement on free trade with the United States. It was mentioned even to then-U.S. Secretary of Commerce Mossbacher, who came to Warsaw on a visit. There was no response.

Meanwhile, the indefatigable Professor Brzezinski organized a special Polish-U.S. Cooperative Committee, whose goal was to form lobbies in both countries to support the idea. The issue was discussed on both sides of the Atlantic Ocean. On 10 September, George Bush announced during an election rally in Hamtramck that the U.S. side is interested in the proposal. Thomas Niles, under secretary of state for European affairs, told a House subcommittee at the end of September that the United States is preparing specific proposals for Poland, Hungary, and Czechoslovakia. During Minister Aren-darski's fall visit to Washington, officials mentioned the idea, asked for details, and promised further investigation. But then there was the election, and Bush lost.

The normal mode of trade relations between the United States and other countries is the so-called most-favored-nation clause, which, despite its name, is not any privilege. Only countries that have agreements on free trade with the United States are really privileged. The United States recently signed such an agreement with Canada and Mexico, forming a zone called the North American Free Trade Association. Beyond this, the United States has a similar contract only with Israel.

What would such an agreement give us? First, it would mean opening the U.S. market to Polish products and an influx of U.S. money into Poland. What would the Yankees get? As integration with the EC proceeded, our country would open for U.S. goods (more precisely, goods produced in U.S. factories in Poland) a back door to the EC, which is the biggest market in the world, in terms of real demand and purchasing power of the population. A question arises, however: Would it not perhaps be better to invest directly in the countries of the EC? Here, Poland has an advantage: Production costs are lower than those in the Community. Lately, Poland has become an attractive partner in the battle with the EC over the General Agreement on Tariffs and Trade (GATT). Many Europeans are anti-American. Poles, as we all know, are the other way.

#### The European Community Does Not Mean the Whole World

If one is a weak partner, one should put oneself in the position of an ally who can be useful to the more powerful rivals in their battle—terms to be negotiated.

At this point, the following players count: Asia, led by Japan; the United States, backed by NAFTA [North Atlantic Free Trade Area]; and the EC—one is tempted to add: led by Germany. In the trade reckoning between the United States and Japan, there is no place for Poland. But the remaining options are worth discussing.

Excluding the Japanese, who not really believe in us, the Asians truly can do business with us. The opening of the back door to the EC is a first point. A transfer stage for money escaping to the West from Hong Kong as it is given back to China is a second point. Being a natural direction of expansion for the next "tigers," not ready for the open battle with Western competitors but able to

become exporters of assets, is a third point. Maybe the gigantic trade and financial center being built near Warsaw, in the characteristic shape of a great pagoda, will be the beginning, and the symbol, of such a trend. The Ministry of Foreign Economic Cooperation ordered the development of a special program to promote direct investments from Hong Kong. The proposed area of investments would be the Western provinces, bordering Germany. Asian investors will receive special procedural assistance and prepared proposals for direct cooperation with Polish companies.

But the greatest potential is offered to us by the United States. It is now in open conflict with the EC and badly needs allies, especially among Europeans. It is the strongest advocate for the liberalization of world trade, which would bring profits to us too (in spite of what local protectionists are saying). It has a chance to be the first Western country to overcome the recession and start economic expansion. Last, it is the only superpower whose protection is worth a lot—as can be seen in the case of Israel. An agreement with the United States would not need long preparation and complicated allowances, as happened with the EC, which is forced to accede to the interests of already a dozen, and soon (after the EFTA countries join) almost 20 participants.

#### Good Morning, America

Bush's defeat complicated the situation a little. Some analysts believe that relations between the United States and East Europe will weaken. But there are many voices saying that, on the contrary, Clinton's United States will pay less attention to keeping order in all corners of the world, but will focus more on concrete interests in key zones, which certainly include the land located between the EC and CIS [Commonwealth of Independent States], or, simply, Russia. Other observers place their hopes with Clinton's adviser on East European affairs, Madeleine Albright, a student of Brzezinski's of Czech extraction. I must add that the free trade zone with the United States would include not only Poland but also the Visegrad Triangle countries.

We will have to wait a little longer for the new U.S. standpoint on this issue. But, if the first signs of interest appear, we should answer with concrete offers. Let us hope that someone in the Polish Government is already working on such offers. The main problem would be negotiating an asymmetrical agreement. As with the EC, we would open our borders to U.S. products more slowly than the Americans would open their gates to our goods. In exchange, we can offer investment privileges to U.S. assets.

Would this mean abandoning or postponing efforts to get membership in the EC? Absolutely not! We also should not be limited by worries that Europeans will be less friendly when we establish closer contacts with their main trade enemy. Only a very naive understanding of politics would cause a fear that cooperation with the United States will be understood as a lack of loyalty

toward Europe, and arouse reluctance among the decisionmakers in Brussels. Stronger partners get more respect in this world than do the more loyal ones. Knocking at the EC door alone, we could be ignored. But, coming to negotiations as the ally of a superpower, a partner with an economic giant, we will arouse greater respect, more serious interest, and maybe even slight apprehension—which would be our greatest success.

#### \* Conflict Over Privatization Conceptions Viewed

93EP0168A Warsaw TYGODNIK SOLIDARNOSC in Polish No 4, 22 Jan 93 p 17

[Interview with Miroslaw Mironowicz, minister plenipotentiary for ownership transformations for trade union contacts, and Marek Zielinski, a member of the Wielkopolska Regional Board of Solidarity, a Sejm deputy, and a member of the Ownership Transformations Committee of the Sejm, by Jerzy Domagala; place and date not given: "Talk and Keep Talking: About Privatization Conflicts," under the rubric "Privatization—A Challenge to Everyone"]

[Text] [Domagala] Why are so many conflicts arising concerning privatization?

[Mironowicz] By its very nature privatization is controversial. It entails real and often conflicting interests. The game is about ownership, assets, big money. The point of the game is who will get what, how much, how, and for how much.

[Zielinski] I view this somewhat differently. In my opinion, a major psychological propaganda error, which still burdens privatization heavily, was made in the initial period. Many politicians claimed that privatization, especially in its mass form, would result in actively involving the public through the mass distribution of privatization vouchers. But the actual value of these vouchers turned out to be minimal; in the case of mass privatization it would be perhaps 5 or 10 million zlotys apiece. This will cause people to feel discouraged and lose interest, and many would feel cheated. A strategic mistake was also made: The course of privatization was decided by the viewpoint of economic theorists rather than practitioners. Armchair theorists developed the idea of privatization "from the top down," of big programs, of sale of big enterprises. That of course had to be done, but there was no privatization of small, medium-sized, weak, and money-losing plants which, unlike commercial establishments, received no assistance. In contrast, commerce, which received such assistance, privatized itself quite soon. There even took place an accumulation of capital, which could have been invested in small and medium-sized plants. That is a major reason why privatization is being so little accepted, and why there is so much hostility toward it and so many conflicts surrounding it.

[Mironowicz] I believe that a distinction should absolutely be made between genuine and apparent conflicts. Genuine conflicts arise when the ministry pursues a

concept which it deems best for a given enterprise, e.g., when it intends to privatize it through capitalization and, on that basis, sell it to a foreign investor, etc., while at the same time the workforce, headed by a trade union, has a different concept. Namely, it wants to acquire the plant on its own. This is a genuine and obvious conflict, and one that also arises most often. But we also encounter apparent conflicts that in principle should not exist and that can be readily and simply resolved. For example, trade unions often question the composition of company supervising councils or boards of governors that they claim do not represent adequately the interest of the Treasury. But such criticism is not the business of the trade unions: It is the business of the government, the Sejm, and the Supreme Chamber of Control (NIK). Trade unions should not have a say in it, but they often try to encroach on the jurisdiction of other institutions and instances. Often also the appraisal of an enterprise's assets is questioned by trade unions or workforces, although this is not their business. They are incapable of assessing this objectively. I consider conflicts of this kind, which arise quite often, to be also apparent.

[Zielinski] I have a question: If a state plant is mismanaged and operated wastefully, with public property leaking into the hands of various partnerships, and if its employees see all this happen, who should react? Only the trade unions can do it, because they are the sole organized force at the plants. It is they that should initiate recommendations to government agencies, public prosecutors, and the NIK. The role of trade unions in supervising and protecting the public interest will still remain huge for many years.

[Mironowicz] It indeed can happen that the workforce is right, as when for example it demands the recall of an improperly operating supervising council or board of directors which puts a company on the ropes. Such demands are of a certainty justified, even if not necessarily consonant with the trade union law, and they have to be respected.

[Domagala] A quite frequent source of conflicts is that some members of supervising councils and boards of directors originate from the former *nomenklatura*.

[Mironowicz] Well, if we want to have a state governed by the rule of law, we must accept the fact that the concept of *nomenklatura* does not exist in law and cannot be a criterion for any personnel appointments. Besides, in practice, too, it is impossible to verify whether a person did or did not use to be a member of the *nomenklatura*. It may be that the Sejm will decide otherwise, but for the present all citizens are equal.

[Zielinski] I do not agree with this. If privatization is to run its proper course, managerial personnel must be credible. Unfortunately, that is something which the ministry often forgets. It is a very serious problem, linked to desire for justice and feelings of injustice, when those who had fared well in the years past remain in positions of privilege. I am against the idea that it does

not matter whether a cat is black or white so long as it catches mice. This reeks of demagoguery. If those communist executives are so good, why shouldn't they establish companies of their own and begin from the scratch like the others and prove themselves? But instead they are starting with a built-in advantage, if only because they have better access to the banks. After all, as is known, the banks are ruled by former communists. Loans, especially the preferential ones backed by Western credit lines, are granted only to trusted individuals. For others no funds are available. It is not I who first said that the banks and high finance rule the world. I would not minimize the fact that the banking system is ruled by the old-boy network. The revolution taking place in Poland, however mild and evolutionary, cannot be made by the people of the old system.

[Mironowicz] In my opinion, the so-called *nomenklatura* issue reflects the politicization of privatization. That is something which pains us here at the ministry very much. Privatization is an apolitical and strictly economic matter. Were all the political forces to agree to the need for privatization, they should attempt to let it run its course smoothly. But unfortunately that is not so. Privatization is being criticized by everyone, whatever his political hue, without his necessarily being right. I believe that privatization should be depoliticized so that it can be pursued in a calm, rational, and specific manner. Then it would not be a controversial domain. Unless things change, it will always be a wellspring of conflicts.

[Domagala] Perhaps we should discuss the most specific and genuine conflict, namely, when a workforce's concept of privatization is different from that of your ministry, as for example, when it wants to turn the plant into an employee-owned company but your ministry prefers to sell it to a private investor.

[Mironowicz] Many myths exist about privatization. One of these myths is the ESOP (employee stock ownership plan). Such a plan is certainly a good solution in the case of small and medium-sized firms employing 100 to 200 persons, operating good equipment, producing good merchandise, and not requiring substantial investment. But if a firm's assets are big, e.g., when it is a shipyard or a big factory, then huge capital outlays are needed to modernize or alter it, and then employee stock-ownership is a road that leads nowhere. But this of course does not mean that employees should not have a right to some proportion of shares or stock in the company.

[Zielinski] I do not quite agree with this either. Employee-owned companies could prosper very well if they had access to credit. For example, 3,000 hectares were leased to a former state farm director who within a year caused a loss of 50 billion zlotys. Even so, he opposes a takeover by employees only because he has a credit line for some 15 billion zlotys at banks with whose managers he is friendly. The employees have no such possibility. One could say that this is just fine, that this is the free-market interplay of forces. That is not true,

because some people have access to capital and others do not. Some are released from their debts and exempted from taxes. Let us understand each other: I understand and even support such spectacular gestures, but consistency is needed. There should be equal opportunity for all. It is said that employee-owned companies would focus on the bottom line. But my observations show that at such companies that already exist the awareness of the need to plow back profits into investment is huge. They understand perfectly that in a couple of years the borders will be completely opened, Western goods will flood our market, and we may not withstand such competition. Accordingly, even now they are investing in their growth, in their future.

[Domagala] In your opinion, what should be done to avert such privatization-related conflicts? And those that already exist, how should they be resolved?

[Mironowicz] I do not believe that the workforces fear foreign capital or are hostile to privatization in general. They fear something different, namely, that decisions are being taken contrary to their wishes or without informing them. Conflicts and protests arise wherever employees feel that something is being done without telling them, secretly, that they are being bypassed. If privatization is carried out openly, if the workforce is kept posted and consulted, an agreement can be reached on even the most sensitive issues. In my opinion, there is no alternative to pursuing the privatization dialogue in an open and objective manner on taking into consideration and respecting the rationales of all the parties. But there are no ready-made prescriptions. Every individual case has to be considered separately. And that is the approach we follow at this ministry.

[Zielinski] I am totally in agreement with this. Talk and keep talking: That is how we shall avert many conflicts or, if they arise, resolve them more quickly. Were company managers as a group to realize this, or should they want to take this into consideration, most conflicts would certainly be averted.

#### \* Benefits of Privatization Questioned

93EP0168B Warsaw PRZEGLAD TYGODNIOWY in Polish No 3, 24 Jan 93 pp 1, 8

[Article by Halina Maleszewska: "Who Shall Cause the State To Lose Its Shirt?"]

[Text] To prove the superiority of private enterprise to the state sector, Minister Lewandowski referred to probably nonexistent analyses.

The deputies probably were playing the children's game "Eeny, meeny, miny, mo, if he hollers let him go," and so forth. Otherwise, it is hard to understand why the Sejm adopted (as a draft to be considered by the appropriate committees) the government proposal for privatization in 1993, while, at the same time, rejecting the "Report on the Status of Privatization." It might seem that the deputies must feel certain about the correctness of the

Polish road to privatization before they agree that it "be continued," but it turned out that they perceive no such interrelationship.

The only enthusiastic supporter of our model of privatization (other than Minister Lewandowski and his people) is the U.S. investment bank Morgan Stanley. Its financial experts declared, "The growth of the private sector will be the flywheel of the Polish economy. Private enterprises will yield to the state budget a growing amount of revenues that would more than offset the losses of the state sector." The newspapers reprinted that "expertise," although nothing more is known about that bank's intentions. It is not certain whether the Americans might have confused one country with another because, as far as Poland is concerned, no miracle can cause the U.S. prophecies to come true.

On the contrary, the greater the scope of privatization, the more likely the state is to lose its shirt, so to speak. That conclusion is suggested by the reading of the data made public by GUS [Main Statistical Administration] about the financial situation of Polish enterprises. Of the 21,600 enterprises covered by the GUS study, the private ones (25 percent alone or 60 percent when the cooperatives are included) accounted for less than one-third of budgetary receipts. It is a fact that the cooperatives are the least well-off, but "purely private" companies are also doing badly. Their profitability is zero (0.2 percent), and they operate in the red (13 percent below operating expenses); it is thus difficult to expect them to be a budgetary pillar. Tax revenues from the private sector are rather symbolic (the exception is the sales tax, which applies equally to private and state companies).

Thus, the truth is that the budget is being supported by state enterprises.

State enterprises pay three kinds of taxes: the "dividend tax" (on assets), the "popiwiek" (the tax on above-normal wage increases), and, of course, the income tax. Altogether, these taxes account for 80 percent of gross earnings, and that is since the dividend and wage-increase taxes were cut. As recently as in early 1992, those taxes, taken together, took a bite of more than 90 percent from gross profits. That is probably a world record because, throughout the world, only one-half of income, at most, is taxed.

Private entrepreneurs, of course, do not pay the assets tax and the wage-increase tax because their assets are their own, and it is not the state's business to tell them how much to pay their employees.

They mostly do not pay the income tax, either, because there is no income. Profitability on the order of 0.2 percent means that they basically subsidize their operations (profits at state enterprises are 4.4 percent). Financial officials, politicians, and economic reporters, for the most part, do not believe that the situation of private enterprises is as bad as they claim it to be. On the contrary, they believe that private entrepreneurs cheat



because they do not want to pay taxes. Assuming that that is true, that too makes the meaningfulness of privatization doubtful.

But it is not unlikely that private entrepreneurs earn no income to pay taxes on. Most entrepreneurs had to apply for high-interest loans in order to begin their operations, and now that there are no buyers for their products, they are nearing bankruptcy.

Figures provided by 12 large banks indicate that, last year, for the first time, most of the companies the banks classified as uncreditworthy were precisely private ones. The number of those uncreditworthy companies is rising at an especially fast rate in the food industry and in commerce, where business once used to flourish most. The reason for the decline is undoubtedly the growing destitution of the society.

Government documents state that, in 1993, privatization will reach "critical mass." And that shall certainly happen because the "Covenant of the State Enterprise" does not ask the work forces whether they support privatization. Instead, it poses the question "Which approach to privatization do you prefer?"

The easiest path is that of changing the status of a state enterprise to that of a single-person Treasury company. In this case, the principal difference is that the worker council, elected by workers, is replaced by a supervising council appointed by Minister Lewandowski as he sees fit. At the Stolbud construction works, for example, the minister saw fit to appoint a council consisting of a private entrepreneur from Warsaw (no one at the works remembers his name or the nature of his company), an MKZ (Interfactory [Solidarity-era] Founding Committee) director from Olsztyn, and a retired lawyer from Warsaw. What do those people have in common with window manufacturing? No one knows. Still, they meet once a month, for which the council chairman is paid two and a half times the average monthly salary of a worker—and the members, the average salary.

Single-person Treasury companies usually prosper less well than when they used to be state enterprises.

Such are the findings of NIK [Supreme Chamber of Control] audits, which Minister Lewandowski considers unobjective because NIK Chairman Lech Kaczynski is ill-disposed toward the present governing coalition. But the same conclusion was made by sample studies of the Gdansk Institute for Market Research, whose head, Dr. Szomburg, is all too well disposed toward Minister Lewandowski (at one time they worked together on the initial proposal for mass privatization). The difference between NIK and the Gdansk institute reduced to interpretation: The institute believes that these companies merely share the increasingly worse financial situation of most enterprises, while NIK believes that they are less well off than most enterprises.

This year, 1,500-2,000 state enterprises are slated to be commercialized [converted to single-person Treasury

companies]. Because commercialization is the first step toward privatization, the question arises of what will happen afterward to so many companies.

For 600 Treasury companies, the next step is mass privatization. The relevant draft law has for a long time been tabled in the Sejm because the deputies do not know whether to be for or against it. In the end, however, they must make a decision. Considering the successful passage of much more difficult laws, it is likely that the mass privatization law, too, is going to be passed. And only after a while will it turn out that the state once again has reduced the numbers of its taxpayers without even getting in return what has been its due so far: the lump-sum injection of receipts into the budget.

Minister Lewandowski has succeeded in convincing many people that mass privatization should be carried out to satisfy the public. He personally prefers privatization through capitalization and believes that selling state plants is the healthiest form of privatization. Undoubtedly, he is right. But the question is, for how much?

Public opinion believes, and NIK provides many examples, that state plants are being sold for pennies. But there is no consensus on the question of where the real price ends and "pennies" begin. Official theory propounds that property is worth as much as is being offered for it. It thus may happen that expensive machinery will have to be sold at the price of scrap metal—and that will be all right. In this country, as a rule, state assets are auctioned off for less than assumed. Last year, for example, state plants were auctioned off at prices that aggregated 800 billion zlotys [Z] less than the anticipated Z4 trillion. And because as many as 23 plants were sold, the average price was quite low. Probably even Minister Lewandowski was dissatisfied because he said, "Several recent transactions were in the nature of rescue operations."

For this year, it is hoped that the state budget will earn Z8.8 trillion in receipts from the sale of state enterprises. That is certain to be another example of wishful thinking, considering the lack of buyers. As is known, there is a dearth of Polish capital, and foreign capital is somehow not anxious to step in, even though incentives in the form of low purchase prices and a cheap labor force—dollar-an-hour wages—appear an irresistible argument. Officially, it is declared most often that the capitalists do not want us because we do not like them. I do not believe they are that sensitive. A highly convincing interpretation is that they are discouraged by the bad domestic market in this country. As our people grow poorer, the attraction to Western capitalists declines. They much prefer to invest in Hungary. In that country, whose population is less than one-third that of Poland, Western capitalists have invested almost precisely three times as much money (more than \$4.1 billion by mid-1992) as in ours. Perhaps that is exactly why the Hungarians did not assume that they had to sell off state



enterprises at just any price. Of the first 20 best enterprises that they placed for sale in 1990, only five had changed owners. They keep selling enterprises singly and slowly. The government claims that to be a pragmatic approach, while the opposition accuses it of slackness. Altogether, the situation over there is quite different from what it is in our country.

In Poland this year, the state enterprises to be sold off include refineries, chemical plants, cement plants, and a truck plant. The government is aware of the difficulty in finding buyers because Minister Lewandowski promised to let Polish businessmen buy them on the installment plan. As to the attendant losses to the budget, they were not reckoned, of course. Minister Lewandowski himself believes that finding big investors is a totally advantageous deal. He said that the advantages include higher budgetary receipts, despite the attendant tax rebates, and he referred to the findings of relevant studies.

I tried to find out who carried out these studies, with their unusual findings, and when. It turned out, however, that neither the authors nor their sponsoring institutions could be identified. To be sure, within the Ministry of Ownership Transformations itself, there is a special analysis section, but it was opened only recently and, so far, has accomplished nothing. The Ministry of Finance can provide no information on this matter, and, as for the local offices of the internal revenue service, they do not bother to tote up the potential taxes that would be paid by a state plant if it were not sold off. They simply record that, following its privatization, the plant has been released from the obligation to pay its taxes—and that is all. Officials with whom I spoke assumed that, in referring to the advantages accruing to the state budget, Minister Lewandowski had in mind lump-sum receipts. But that does not require analyses; for that, an accountant will suffice. It can thus be suspected that the minister referred to nonexistent analyses in order to prove the superiority of private enterprise over the state sector.

In theory, anyway, no one doubts that superiority. Except that, so far, practice has not proved the theory. Not only in this country but also in the FRG, which is an unreachable model to our privatizers. Minister Lewandowski himself, like many others, always enthusiastically refers to the fact that the Germans are selling enterprises for the symbolic 1 mark, just to get rid of state ownership.

In reality, however, the Germans sold about 40 percent of assets—90 percent to compatriots from West Germany—and mostly at a decent price, at that.

Of course, “1-mark” transactions do happen. For example, there was the sale of a big chemical plant to a private Russian company. But it can be suspected that there is a hidden “second bottom” to them.

Early in December 1992, the German federal government decided to put an end to cheap sales. A genuine recovery program is to be implemented at state plants,

instead of patching them up outwardly for a quick sale, and they will remain state-owned until a buyer ready to pay what they are worth is found because it turned out that, so far, the buyers of state assets desisted from investing in them. The German Government thus concluded that, if a truly modern plant is desired, investment in state enterprises is needed.

In this country, supporters of privatization at any price keep referring to the German example, however. It is not certain whether they have not yet become aware of the turnabout in the federal government's privatization policy or have refused to acknowledge it.

And, yet, the reasons the Germans are postponing the privatization of state enterprises until their recovery is achieved should be attentively considered. In this country, too, it would be worthwhile to undertake broad comparative analyses of the advantages of privatized versus state enterprises to the economy, and only on their basis decide on the further fate of privatization in Poland.

#### **\* Problems Facing Radio, Television Industry**

93EP0167A Warsaw ZYCIE WARSZAWY in Polish  
26 Jan 93 p 9

[Article by Karol Jakubowicz: “The Honor of the National Council”]

[Text] *Karol Jakubowicz foresees important problems to be faced by the still nonexistent national radio and television council.*

A principal problem will be to establish a procedure for granting station operating licenses and to require explicit operating proposals from the applicants.

Each European country handles its license-granting procedure differently. For Poland, the worst alternative would be to adopt the Italian model: uncontrolled proliferation of private radio and television stations.

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Early in February, the Radio and Television Law will take effect. Then the formal process of establishing the National Radio and Television Council will begin, as well as the first preparations for granting licenses to new operators.

Here in Poland we already have considerable and not too fortunate experience in granting operating licenses. Concerning radio and television stations, the common opinion here is that, in the beginning, any new such station is like a piggy bank—with time and a little patience, it will turn into a goose bearing golden eggs. Hence, the great number of applicants and the need to establish a procedure for license applications that would require the applicants to report complete information about their backgrounds, capital, and staffs. Granting licenses to companies with uncertain financial status

would result in the bankruptcy of many newly established stations, whereupon the license-granting process would have to be commenced all over again. Everything should be done to ascertain that the applicant indeed represents Polish capital (and is not funded by a foreign partner) and that it is indeed he and not someone else who shall manage the station in the future. The law is intended to prevent a press monopoly. Therefore, all relevant information on the applicant's other press activities, if any, will be needed.

It pays to always be extracautious about such matters, as demonstrated by the publicity about last December's decision of the British Commission for Independent Television to refuse to grant the Channel 5 Holdings consortium a license to operate a fifth national commercial television channel. The members of that consortium had declared partnership contributions totaling barely 45 percent of the founding capital, which was to amount to 175 million pounds sterling. The commission wanted to ascertain that the consortium would have sufficient funds to keep operating the channel for the entire 10 years of validity of the license, irrespective of potential advertising revenues. It demanded proof that at least 70 percent of the founding capital was contributed.

The list of members of the consortium left no doubt that they were capable of gathering 175 million pounds. They include Thames Television, a London company belonging to the Thorn EMI concern, Time-Warner (a media concern with the world's highest earnings), Capital Cities (the owner of the U.S. ABC network), Pearson (the publisher of *THE FINANCIAL TIMES*), and so forth. In their letters to the Commission for Independent Television, they provided assurances that they would contribute fully to the founding capital once the license is granted. But the commission demanded specific financial contributions instead of declarations. When the funds did not materialize, it refused to grant the license, basing its decision also on the mistakes made in preparing the business plan (in its opinion, the expectations regarding advertising revenues and the size of the viewing audience were too optimistic). It refused, even though that means that the establishment of Channel 5 will be markedly delayed, inasmuch as that was the sole application for that license.

#### What Is the Order in the Ether?

In this country, too, major problems with the preparation of proposals for new stations will arise. No one really knows how much is spent in Poland on advertising (the estimates range from \$100 million to \$600 million annually) and what the breakdown of these expenditures on the individual mass media is, or how the advertising market will develop. Because the contest for every available frequency will be separately announced and resolved, applicants will also find it difficult to orient themselves as to the constituency in question. The National Council may opt for the establishment of several powerful stations or networks, or for the formation of many small local stations. It may all at once

announce contests for all of the available frequencies, or it may adopt a different procedure. The law endows it with total freedom of action in this respect. The Council should do everything so that applicants who risk real money would be provided with realistic prospects for their future and for their chances to operate at a profit.

Western countries have been following greatly different paths, depending on their concept of the order in the ether and the appraisal of the financial possibilities of private stations on the advertising market. In England, the number of available licenses has always been so determined that only one station capable of surviving on its advertising revenues would operate on a given market. That is why, in that country, commercial television consists of 16 stations combined by law into a national network. In its turn, in Denmark, the original decision was that the private sector would operate only on the local scale, and as many stations as possible would be established. Licenses were granted to local companies, and their combining into a network was prohibited. Stations that did not broadcast on a 24-hour basis were obliged to share their frequencies with other broadcasters ready to fill out the empty hours. A "Robin Hood Fund" was established: Radio stations were obliged to allocate 10 percent of their revenues for subsidizing the stations not deriving sufficient revenues from advertising. It was only after a few years that this policy was dropped and a nationwide commercial television channel established. In Sweden, in its turn, private television began to be established on the basis of satellite channels transmitted by cable systems, followed by the establishment of a single national ground television channel; there was no hurry about private local stations. In France, Channel 1 of state television was privatized, and three more nationwide channels were subsequently established. One of those went bankrupt because the market was not broad enough to support six nationwide channels. The development of local private television stations was minimal, with only three such stations established. For Poland, the worst alternative would be to follow the Italian model—that is, an uncontrolled explosion of a fragmented private sector, which in Italy has been developing in accordance with a logic of its own, forcing the government and parliament to take measures that merely sanctioned *faits accomplis* and placing the RAI greatly on the defensive.

#### The Rubik Cube

Granting radio or television licenses is like working on a Rubik cube: The procedure must follow an iron logic, yet every new alignment unlocks many different possibilities, of which the optimal one must be chosen; a trap may be sprung at any moment.

In Bulgaria, licenses began to be granted, even though discussions on a draft radio and television law still continue. The applicant must present a proposal detailing his background, operating plan, scope of station, and languages in which to broadcast, and, further, he has to present a declaration of respect for author's

copyrights and pledge (if he wants to establish a television station) that at least 40 percent of the films shown will be European-made and 20 percent Bulgarian-made. Furthermore, he has to present complete technical specifications of his transmitter and other equipment as well as approved architectural construction plans for buildings. Even so, these requirements are modest and reflect a lack of experience with private radio and television. The British Commission for Independent Television has published a 100-page guide for applicants that contains extremely detailed requirements as regards the procedure for applying for a license and the information to be presented in the application. Meeting these requirements means submitting an application consisting of 1,500-2,000 pages.

In France, the procedure for granting licenses consists of eight stages, starting with the announcement of the contest and proceeding through a preliminary analysis of applications, development of the frequency plan for a given market, a second analysis of applications, an assessment of the technical aspects of the application, and, finally, the granting of the license. Three of those stages require the participation of an engineering commission, five the involvement of a plenary session of the Supreme Audiovisual Council, and four the announcement of the decisions made at a given stage in the official journal of the government. This assures the greatly needed publicity of the process of license-granting.

In Poland, the Ministry of Communications at first required of applicants for frequency allocation the filling out of a one-page application. The National Council shall certainly redefine the related requirements, and the applications will have to be redone and resubmitted.

The Council will also have to develop the most precise possible criteria for evaluating the applications. Any decision to grant a license will be exposed to extremely sharp criticism and provoke protests. Politicians view radio and television as a dream instrument for staying in the public spotlight, whereas businessmen, as mentioned, sniff at chances to coin money. Both the politicians and the businessmen are ready to go very far in order to accomplish their objectives. The National Council must pass this test with honor.

#### **\* Strengths, Weaknesses of Polish Managers**

93EP0171A Warsaw ZYCIE GOSPODARCZE in  
Polish No 3, 17 Jan 93 p 5

[Interview with Prof. Andrzej Kozminski, director of the Center for Management and chairman of the Warsaw University International School of Management, by Barbara Brach; place and date not given: "Between a Dinosaur and a Shark"]

[Text] [Brach] You have been teaching management for years. According to a popular view, it is the managers who have real power in the economy. Can you tell us who they are—the Polish managers in 1993?

[Kozminski] It is a misunderstanding that the managers hold the positions of power in the economy. They only work within a framework prescribed by state bureaucrats whose level of competence is pathetic. The damage which the bureaucracy has inflicted is enormous. We should not succumb to an illusion that the economy, even the market economy, especially in the process of transformation, is impregnable to red tape and that independent market forces decide about everything. I am bringing this up in order to point out that Polish managers, constrained by a bureaucratized economy, face additional, very difficult tasks.

[Brach] This time we are interested in the managers themselves.

[Kozminski] They are a diverse group. I would describe it in terms similar to those used to describe the types of Polish economic enterprises. This comparison would allow us to sketch the most visible features of the various types of Polish managers.

The first group consists of so-called dinosaurs—huge, heavy industry enterprises, employing more people than they need, usually overinvested in some aspects while underinvested in others. They constitute a major social problem.

The second group is composed of so-called aspirants, that is state enterprises that show some signs of hope. They are medium size, more modern, more profitable, often active on foreign markets. The booming small business sector constitutes the third group. The fourth is composed of so-called mixed marriages; that is, all types of joint ventures with foreign capital. The large private enterprises, the so-called baby sharks, constitute the fifth group.

[Brach] Our point of departure are the "dinosaurs" which, as I understand it, face extinction in the process of evolution....

[Kozminski] The managers of the dinosaur-type enterprises have been and will continue to be appointed according to the political criteria. Their (as well as their enterprises') survival depends on their political connections and influence. In addition, since the "dinosaurs" are Solidarity's fortresses after all, it is obvious that any government rooted in that movement has to take into account this constituency.

[Brach] A peculiar combination of the "dinosaurs" immobility and trade union power?

[Kozminski] I am decisively against the anti-trade union rhetoric! If nothing else, it would be unrealistic. Whether one likes it or not, trade unions are powerful in Poland. Therefore, one has to negotiate with them. I am sure that both the trade unions and the workers would be willing to accept radical solutions. But one can negotiate only when one has a precise plan of restructuring. The managers of those enterprises cannot work out such plans themselves. They are incapable of that. Besides, the

restructuring programs for the "dinosaurs" have to be sponsored by the government, since they have to be backed up by considerable financial and organizational resources. As it is, the management of the "dinosaur" enterprises is pretty poor. The fact that these are political appointees, as well as the very mechanism of those appointments, eliminate competent experts almost automatically. In this way, the circle is closed.

[Brach] The second group of enterprises, aspirants with potential, also consists of the state companies. What is then the difference between their managers and those of the "dinosaurs"?

[Kozminski] The major difference is that their power is rooted in their market contacts, not in political connections. They know how to establish those contacts, including in foreign markets. This group of managers has learned to how to oversee their workers. These are people who see their own future as heads of privatized companies. They are supporters of privatization, ready to either sign the management contracts [with private companies] or even lease or buy the whole enterprises by groups of managers.

[Brach] These visions are not very realistic if they are not supported by the enterprises' employees.

[Kozminski] But these managers have that support! If a company is not going belly up in these hard times, the employees would certainly support their boss.

[Brach] The small business managers constitute a group that already plays by the rules of the market economy.

[Kozminski] This is a large group of people characterized by one dominant feature—instinct. To be sure, some people call them smooth operators. This group has heavily invested in the second economy; they avoid taxes, fees, dues, etc. Thanks to this, they survive.

[Brach] Okay, the second economy exists everywhere in the world, it produces something, it brings about individual fortunes, but...

[Kozminski] It is really difficult to evaluate the second economy unequivocally. Let's imagine that some draconian measures put the second economy out of business. Then the national product drops by twenty percent. It would be a tragedy! On the other hand, I have an impression that the majority of these people would like to make their operations legal...but on rational terms. The fact is that overtaxation and draconian customs fees drive them into the second economy. Their basic skill is the skill of avoiding authorities and the tax man. At the same time, many of them will in the future constitute the core of the big capital. As a matter of fact, some representatives of the current big capital have grown out of this group. In other words, this group is the big capital's recruitment pool.

[Brach] As at the dawn of capitalism.

[Kozminski] The problem is that being a part of this group teaches one skills which are of limited use in the normal economy. Therefore, if people who constitute this group want to start open, legal operations one day, they would have to learn much more about the bookkeeping, banking, etc. Many are aware of that and want to learn. We, at the International Management School, have opened a one-year management program just for them. It is quite popular.

[Brach] The managers of the joint ventures do not have problems of this type, do they?

[Kozminski] They have their own, specific problems. It is especially the case of foreign investors who behave as if they were commandos parachuted to Poland. These managers lack self-confidence in Polish conditions. It takes them a lot of time and money to learn and adjust.

[Brach] More and more it is the Poles who head the joint ventures.

[Kozminski] This is a much better strategy. The Polish managers quickly learn and reach the level of their foreign partners. Simply put, they are good.

[Brach] Where do they come from?

[Kozminski] Most of the time they are young people who have traveled abroad. They know foreign languages quite well. They have differentiated backgrounds—college graduates, young scholars, employees of state enterprises, as well as small business entrepreneurs. There are quite a few of such people in our International School of Management. It is a good group.

[Brach] One wonders about the criteria of their admission.

[Kozminski] These are standard criteria—experience, knowledge of foreign languages and intricacies of business operations (bookkeeping, for instance), intelligence, motivation.... To be a boss of such a company in Poland is an extremely attractive job. Hence, there are plenty of candidates to choose from. It is also very important that foreign businessmen who decide to hire these people do not see them as competitors. This group will play an enormously important role in the future. I see them as a force capable of jump-starting the Polish industry.

[Brach] There is one group left to discuss—the baby sharks.

[Kozminski] This is a group of managers on the rise who have gone beyond the confines of small business. Unfortunately, many of them are lacking basic knowledge of management. At the same time, they are obsessed with growth.

[Brach] The desire to create one's own business empire is overwhelming. One year ago one was running a little shop. Today one can run factories, wholesale companies, shopping centers...



[Kozminski] More and more factories, more and more turnover... But this usually means that a company loses a capability to finance its own growth. Given the current price of credit, it falls into a debt trap, which is the same as bankruptcy—death.

When economy is slow and interest rates high, a company can grow only as long as it can finance that growth by itself.

[Brach] These companies are usually run by their owners.

[Kozminski] And this is the second major error. The owners-founders of the company often do not have proper managerial skills. Neither do they have courage to hire experts to run their business. They do not understand that as their companies grow, they must delegate some of their power to others.

[Brach] Many members of this group had started in small business twenty or thirty years ago. They think that if they survived in socialism, there is nothing to be afraid in a normal economy.

[Kozminski] The point is, however, that one cannot run a company this way in a normal economy today. A one-man management operation is inadequate to run large enterprises. These enterprises face what I call the growth crisis. I am afraid that a considerable number of large private companies will disappear, due to the fact that their bosses lack management skills. May I turn out to be a false prophet!

The only consolation is that these managers will be replaced by the next generation—people who will come from joint ventures, state companies on the rise (the “aspirants”) and/or small business.

[Brach] Managers who came from the small business do not show much desire to upgrade their education. What is the source of this attitude in your opinion?

[Kozminski] Arrogance. But the market will teach the baby sharks how to be humble. It will be an extremely brutal lesson. Economy in the state of recession demands a lot from managers while at the same time it does not tolerate any mistakes. It is the survival of the fittest. A manager is often like a sapper: His first mistake will be the last.

[Brach] Let's try to make a generalization about the Polish managers as a whole. What is their weakest side?

[Kozminski] Their lack of knowledge of so-called hard techniques—bookkeeping, using financial indicators, etc. Any Western manager can easily use 20-plus financial indicators that help him gauge his company's performance month by month.

[Brach] It may be that the Polish managers's ignorance of those techniques results from their lack of trust in them.

After all, it may happen that the gentlemen from parliament come up with an idea to change the turnover tax and the whole calculation will go down the drain.

[Kozminski] Pardon me but this amounts to ignorance and a lack of familiarity with a market economy. True, when a company operates in difficult and unpredictable circumstances, it has to keep some financial reserves, which is costly. But it is the financial indicators—for example, the proportion of the turnover capital guaranteed by credit, the capital turnover index, and scores of others—that constitute a dashboard of sorts. If the red warning lights begin flashing there in advance, one can prevent an accident, one has a chance and time to save oneself. But many Polish managers seem to be totally surprised by the impending debacle of their companies. Anywhere else in the world, a dashboard composed of the financial indicators is located in the company's headquarters. In Poland, the top managers rely on their intuition and odd signals. As a result, they are often surprised by...bankruptcy.

[Brach] Later they explain that they were taking a risk.

[Kozminski] You have touched the fundamental weakness of the Polish manager. Sometimes I have an impression that we are dealing with some kind of culturally determined risk-deviation. It may be a reaction to the times when taking risk was inadmissible, when the [political-economic] system would severely punish those who would take risk. Now, for a change, entrepreneurs take risk with neither a proper analysis of their chances to succeed nor any backup.

Their yet another weakness is their overemphasis on production, to the detriment of sales. It is still more important for them to manufacture a product than to market it. When will they understand that the customer is the ultimate judge of their business?

[Brach] You have mentioned that the managers of the dinosaur-type enterprises have an anti-trade union attitude. Other categories of managers are not very fond of the trade unions either, are they?

[Kozminski] This is a deeper problem altogether. The Polish managers do not know how to talk with people, how to negotiate. They would like the trade unions to disappear. They are prone to treat people in a heavy-handed manner. What is worse, most of them are incapable of understanding that it is the employees that are the best capital of any company and the major source of its strength! A company with a good staff is a major asset anywhere in the world. But in Poland the managers ignore the need to invest in their employees, to upgrade their skills, preferably on a permanent basis.

[Brach] To invest in the employees' training is costly nowadays. Most of the companies barely make it.

[Kozminski] There is no need to exaggerate. If the tuition for a program at the International Management Center of the Warsaw University, cosponsored by the

University of Illinois, is \$3,000—less than the price of the Polish Fiat 126 car—this does not seem to be an exorbitant price. If, on the other hand, one ridicules education and is more interested in the newest model of BMW or Mazda than in a diploma, then there is no need to blame this on the high costs of education.

[Brach] The fact that the Polish business class spends its profits so ostentatiously results largely from the tax system.

[Kozminski] Unfortunately, yes. As long as we do not understand that rich people in a poor country should first of all reinvest their money—in their companies and in their employees—we will not create conditions for economic growth.

[Brach] We have not spared the Polish manager, have we?

[Kozminski] All the weaknesses and inadequacies of the Polish managers can be cured in my opinion. I think that the market will straighten them up rather quickly. Three years ago I could have talked even more about their deficiencies and flaws. We really are a talented nation.

[Brach] How many years will the Polish managers need to attain the world-class professionalism?

[Kozminski] It will take approximately ten years if the process of transformation is not hampered. Already today some of the Polish managers have no reason to have an inferiority complex with regard to their Western counterparts.

[Brach] Thank you for the interview.

**\* Alliance of 5 Independent Trade Unions Formed**  
93EP0166A Warsaw ZYCIE WARSZAWY in Polish  
21 Jan 93 p 5

[Article by Igor Janke: "Lepper and Moric: The New Alliance of Independent Trade Unions Announces Unflinching Opposition to the Government"]

[Text] Five trade unions are uniting and forming a new alliance. "We will be more radical than the All-Polish Trade Unions Agreement," announces Rajmund Moric. "The populist faction is closest to our political views,"

says Andrzej Lepper. The creators of the new alliance believe that their unions have 600,000 members and announce that they will have candidates in the election to the parliament.

The new Alliance of Independent Trade Unions will be formed from five autonomic trades: Andrzej Lepper's Self-Defense, Rajmund Moric's Federation of Miners Trade Unions, the Trade Union of Miners in Poland, the Trade Union of Railroad Engineers, and the Trade Union of the Copper Industry. Some time ago, these unions created the Inter-Union Negotiation-Strike Committee, which, between last July and August organized a wave of strikes and road blockades. At that time, the unions cooperated with Solidarity '80, which is not participating in the formation of the new alliance.

The creators of the Alliance of Independent Trade Unions announced that they will stay in permanent opposition. "There is no doubt," said Rajmund Moric at Wednesday's press conference, "that the alliance must be more radical than the All-Polish Trade Unions Agreement [OPZZ]." According to Andrzej Lepper, by signing the pact on enterprises, the OPZZ turned out to be a progovernment trade union.

The new alliance would like to put up candidates in the election to parliament either by itself or with the help of one of the political groups. The trade union members think, however, that there is no party that would suit their needs. "We will choose some option for sure," said Lepper. "The closest to our views would be a populist party, if such were to emerge." According to Moric, the new alliance has 600,000 members.

Self-Defense is a trade union of farmers, established by Andrzej Lepper, a former Polish United Workers Party activist. Being against the entire political establishment, the organization adopted more radical forms of protest. It organized occupations of government buildings and blockades of roads; it used force to stop auctions of property of indebted farmers. Activists from Lepper's trade union also created a political party called "The Alliance: Self-Defense."

The Federation of Miners Trade Unions, meanwhile, as well as the rest of the alliance members, were formed by separating from the All-Polish Trade Unions Agreement. In the 1980's, Rajmund Moric was an active leader in Alfred Miodowicz's OPZZ.

**\* Alleged Czech Tendency to Isolationism Criticized**

93CH0318A Bratislava SLOBODNY PIATOK in Slovak  
22 Jan 93 p 2

[Commentary by Igor Cibula: "Czech-Slovak Isolation?"]

[Text] There have been increasing signs that the Czech Republic has decided to reorient its relations even more away from Slovakia, to go as far as replacing the Visegrad Four by forming an alliance with Poland, Hungary, and Slovenia, which, in Prague, they consider to be the only stabilized successor state to the former Yugoslavia. According to a statement by Alexandr Vondra, the Czech deputy minister of foreign affairs, "they are weighing the significance of the Visegrad group and its function in the future." They say they do not know how relations between Hungary and Slovakia will develop, and they do not want "any cooperation in this area to slow down our integration with the West, but to speed it up." Prime Minister Vaclav Klaus himself emphasized that "we aim toward the West, toward the Western political, economic, and security entities." Therefore, it is not really surprising that the headline "Czech Army Wants To Join NATO With Its Warsaw Pact Equipment" appeared recently in the Czech press.

In this context, it is also easier to understand the reports about a speedier separation of the Slovak and Czech currency, as well as signs of many complications in the working of the Czech-Slovak customs union. Czech-Slovak solidarity is also losing part of its cultural-historical content by the emergence of problems in mutual communications. The Prague public now has only a minimal opportunity to have access to the Slovak press, and the process of mutual isolation is reinforced by the fact that the system of exchanging television programs between Bratislava and Prague, including regular newscasts and reports from the other republic, is not working properly.

Isolationist barriers between citizens of successor states to the Czech-Slovak federation are beginning to appear, despite the fact that two nations closer to each other than Slovaks and Czechs do not exist anywhere in the world. The more right-leaning Czech politicians and their Slovak nationalistically oriented counterparts see the salvation of their nations in preventing them from getting adequate information about what is happening in the country of their closest neighbor. While in Europe the process of mutual opening up is moving on, someone is trying to erect an information barrier along the border between Moravia and Slovakia. The Czech Government does not even make a secret of the fact that, under certain circumstances, it will consider erecting real border barriers and regulate the movement across the Czech-Slovak border.

Although these are legitimate steps of a neighboring sovereign state, it needs to be pointed out that, only recently, influential Prague politicians sought the favor

of the Slovaks as brothers in a common homeland. Now they want to close the door on their brothers and are turning their backs on them because they did not submit to their will. The Czechoslovakists will not have an easy time of it in Slovakia, which the Prague "Euro-citizens" want to isolate from Europe and are presenting to the world as a Balkan bastard, even though they do it in the polished diplomatic language of the former adviser to the future Czech president. It is as if the words of those who maintained that the Czechs will be on good terms with the Slovaks only as long as they can exploit them are coming true.

With a view to the mentioned circumstances, Slovak diplomacy must do its best to make any attempt to isolate our state from the West only an unfulfilled wish of those who do not wish Slovakia well. But, to achieve that, assertions and proclamations of official representatives of the Slovak Republic will not be enough, only a realistic policy of positive steps toward neighbors with whom historical destiny has joined us. Slovakia, as a member of the United Nations, has the opportunity to present itself in the international community in such a way that, in accord with our interests, we shall be considered a democratic state. Precisely because of the ill will of some circles in Prague, it will be necessary to seek partners for a Slovak-Hungarian settlement in Budapest, even though at the present time that would not be so simple.

The signs that isolationist barriers are being erected in Czech-Slovak relations look like a paradox, especially in view of the developing contacts of the independent Slovakia with the world. It can be considered characteristic for its orientation that the first foreign government official to visit the independent Slovak Republic was Roland Dumas, the French minister of foreign affairs. And hardly insignificant is the visit of Minister of Economy Ludovit Cermak to Vienna, where he signed with his Austrian colleague an agreement of cooperation with a neighbor whom we consider to be the direct Slovak window opened to the West. And we should keep in mind the planned visit of the highest representatives of Slovakia to Moscow, where there are also partners for a mutually advantageous and productive cooperation. All of the mentioned visits are evidence that an independent Slovakia will not become isolated—although many have prophesied it—so that even the Prague attempt to engage Slovenia in closer cooperation at the expense of Slovakia need not be taken too seriously.

**\* Director of Budget Section on Budget Planning**

93CH0321A Bratislava PRAVDA in Slovak 22 Jan 93  
pp 1, 3

[Interview with Lubomir Klimo, director of the Budget Section of the Slovak Finance Ministry, by Ivan Podstupka; place and date not given: "The State Treasury Is Empty, Too"]

[Text] It looks as though every year there will be more problems in the parliament with approving the results of budget management than with the proposed state budget. This can be deduced from the fact that the state closing account for 1991 was approved on the second attempt, and only at the end of 1992, but the proposed budget for 1993 was passed by the deputies relatively easily. We talked about the state budgets from the past two years and for this year with Eng. Lubomir Klima, C Sc [Candidate of Science], director of the Budget Section of the Slovak Ministry of Finance.

[Klima] According to the preliminary bank statements of the revenues and expenditure of the state budgets at the end of 1992, the deficit in the state budget of the Slovak Republic was approximately 9.3 billion korunas [Kcs], and, after further determinations, it has stabilized at 9.7 billion. The deficit in the Czech budget is over Kcs1 billion, which was the situation before final adjustments. There is a deficit in the federal budget as well; it is about Kcs 6.6 billion. The total of the state budgets of the former CSFR, the Slovak Republic [SR] and Czech Republic [CR], show a deficit of more than Kcs17 billion.

[Podstupka] And what is the structure of the deficit?

[Klima] In the SR, there was a shortfall in revenues of approximately 2 percent, and expenditures were exceeded by 6.5 percent. The revenues of the federal budget fell short by 8 percent, and expenditures were 4 percent lower. The largest shortfall was in shared revenues—that is, the sales tax and the profit tax. For the former federation, it amounted to Kcs31.1 billion. Slovakia's share of this amount was Kcs7.5 billion. The amount expected from the payroll tax was not met, and, in this item, there is a large shortfall even in the CR. On the other hand, the income compensation item—tax on wages, fines, penalties—was greatly exceeded. The revenue base of the state budget was affected by the decision of the government to defer the payment of the tax on wages for organizations of primary agricultural production in the amount of Kcs2.8 billion.

[Podstupka] And how about expenditures?

[Klima] Expenditures in the SR were exceeded by the mentioned 6.5 percent. It must be kept in mind that it was not planned to finance the construction of the Gabčíkovo dam out of the SR state budget for 1992 in the amount of Kcs4.5 billion. Other unplanned expenditures came as a result of the preparations for the Slovak state, when the transfer in the areas of foreign relations, defense, and interior from the federation to the Republic was financed out of the state budget in the amount of Kcs3 billion. If these unexpected expenditures, as well as others, had not occurred, the SR budget would have had a closing deficit of Kcs1-2 billion.

[Podstupka] But there is also other indebtedness to the federation and the past....

[Klima] Yes, the federal budget closed with a deficit, and, according to the principle of 2:1, the SR will have to share in covering the deficit in the amount of Kcs2.2 billion. Thus, the deficit of Kcs9.7 billion will grow to Kcs11.9 billion. And the year 1991 is still open. In that year, the deficit was Kcs10.2 billion. By using reserves, assets, and federal contributions, we defrayed Kcs2.2 billion. Another Kcs8 billion was left to be solved by floating bonds, of which Kcs0.6 billion worth were sold. We therefore have an uncovered budget deficit in the amount of Kcs7.4 billion left over from 1991. In 1992, we issued bonds for residential construction in the value of Kcs4.2 billion, of which all were sold. We intend to sell Gabčíkovo bonds to foreign and domestic institutions; negotiations are promising, and we should sell the bonds for the total amount before long. As a result, budget expenditures for 1993 should not be encumbered. Let us summarize then. The SR state budget deficit of Kcs9.7 billion will increase by the Kcs2.2 billion share of the federal budget deficit, which together amounts to Kcs11.9 billion. Gabčíkovo bonds in the amount of Kcs4.5 billion will be sold, and Kcs7.4 billion from 1992 will remain uncovered. By coincidence, the internal debt for 1991 and 1992 are both Kcs7.4 billion, so that, altogether, Kcs14.8 billion remains to be covered.

[Podstupka] An answer to the question "what to do about the debt" certainly is not the easiest one....

[Klima] We are in the most critical stage of the economic transformation. We shifted to the territorial principle for creating resources, which, in the new economic area, represents a great unknown. The collection of taxes in this area, on time and in the appropriate amount, will no doubt meet with difficulties. IMF representatives told us that, even in consolidated, mature economies, a change in the tax system means a drop in state budget revenues of several months' duration, while nowhere else was there a sudden change of such extent ever made. There will be problems caused by the start-up of National Insurance. Everything was concentrated into one term. To realize our plans, we need three things: first, money; second, money; and third, money. That is the basic issue with which we have to deal; otherwise, it will not be possible to eliminate the deficit and revive the economy. Let us look at the starting situation. The banking institutions do not have enough free financial resources to buy state bonds. We are only beginning to build a financial market and, especially, a capital market within its framework. Moreover, there is no activity by foreign banks. This situation must be changed. Through a tax system, relief, and other measures, we must get free foreign financing capital to come here. The financing of the budget deficit drains from the banks resources that could be used to provide credit for economic development. We find ourselves in a vicious circle. What must we do, therefore? Finish building a capital market, with all of the attributes and institutions, develop a secondary market with securities, so that banks cannot only buy government securities but also be able to trade with them. We must create conditions for the inflow of free



bank capital and spread the payments of the state debt in such a way so as not to burden the state budget in one or two years but in several. We must spread payments in such a way so that they will be tolerable under our conditions.

[Podstupka] But that means that we shall carry the debt with us into the future.

[Klima] We do not intend to roll it over automatically into the next period. In relation to the foreign financial institutions, we made a truly frontal attack, so that we could sell the state debt and gradually spread it out into installment payments and liquidate it through the nascent capital market. There also appears to be the possibility of financing the debt with a foreign loan; we have offers, and it could be a matter of weeks.

[Podstupka] The key will be the budget for 1993—more precisely, the way it is managed. Although it passed the SR National Council relatively easily, it was subjected to expert criticism. A special point was made of the unrealistic revenue part of it.

[Klima] The Slovak economy, under the present conditions, with the existing number of agreements with the CR, other countries, and international financial institutions, cannot afford a higher budget deficit in 1993. The construction itself of the model of the budget is from the viewpoints of balance at the very limit. We realize that the inflationary impact is not taken fully into consideration in the budget, and the same is true of the value-added tax. That is why we took the approach of capitalizing income and creating the conditions for a thorough collection of taxes. That would bring in as much as Kcs1 billion. In the expenditure part, there will be a different restriction than is the case now. It will not be done mechanically, but by objectivizing expenditures. It means that we shall endeavor to obtain the greatest effect with the least possible amount of money. We want the "social to be really social," so that the money goes to those who depend on it, and will be taken away from the citizens who do not need social benefits. As far as the 1993 budget as a whole is concerned, we are aware of its weaknesses. In fact, experts from the IMF identified Kcs20-30 billion as risky.

#### \* Cernak Reviews Prospects of Slovak Economy

93CH0319A Bratislava NOVE SLOVO BEZ  
RESPEKTU in Slovak 11 Jan 93 pp 12-13

[Interview with Slovak Minister of Economy Ludovit Cernak by Alzbeta Simonovicova; place and date not given: "At Home We Will Not Be Negroes"]

[Text] *We are now starting Year One of our state sovereignty, with courage and partly also with concern. Will our checkered economy hold, will we be able to stand on our own feet, and what is more, will we learn to walk without a crutch? As the SNS [Slovak National Party]*

*chairman Eng. Ludovit Cernak is bound to exude optimism, does he think the same way as the SR [Slovak Republic] minister of the economy?*

[Simonovicova] The government has already adopted a strategy for revitalizing Slovakia's economy. It provides an analysis of the situation and, at the same time, an array of measures affecting the entire economy. Which of them are of key significance?

[Cernak] I see the first stage as being the most important, the stage of economic stabilization. What does Slovakia need to maintain macroeconomic stability? Selling its goods. And, thus, a reconstruction of its markets. At a time when Western Europe is in the throes of a crisis, substantially deeper and longer than had been anticipated, penetration of the Western markets is not easy. There are enterprises that have already caught on, but, as a rule, we will need superior commercial skill to restore the eastern market, in Ukraine and Russia, where there is tremendous potential and where our products can find their place, thanks to their quality.

Under favorable circumstances and utilizing all other advantages of Slovakia, we might attain up to 30 percent of the 1989 volume (at present, we are approximately at 10 percent), when up to 70 percent of our products went to eastern markets. A new situation has arisen: We will take advantage of Slovakia's transit location, and, for gas and oil, which are actually hard-currency items, we will be able to pay in certain products in close cooperation with Russian and Ukrainian producers. This will be one of the decisive impulses for Slovakia's economy.

Second in importance is stabilizing the situation in the conversion program. The Syrian contract was agreed to under threat of social unrest and led to bringing production up to approximately 50 percent of capacity, where it remains. Very slowly but already noticeably we see effects of conversion programs. Products from factories that underwent conversion—oil pumps in Dubnica, Lombardini engines in Martin, tractors in Martin, loaders in Detva, Fiat tractors in Hrinova—are of world-class quality and built better than their originals. But it is of small help for Detva, when it produces 7,000 excellent loaders and the European market is capable of absorbing 200 or 300. We are looking for an internationally acceptable market for the one-half of the capacity of our arms production, and, indeed, even some West European countries would buy technology meeting world-class standards. This would stabilize the areas in which we are hurting and create room and resources for further conversion.

[Simonovicova] Increasingly we hear about taking advantage of Slovakia's transit location. Even a term has been coined—transit economics. What is behind it?

[Cernak] It just so happened that the Lord has placed Slovakia between Russia and the Czech lands, with Western Europe beyond. But, because it is so and there are five pipelines through which flows 80 percent of the Russian export, we have a basis to assume that, on the

gas and oil, we will make a \$500 million net profit annually for the Slovak budget. Of course, that will require us to provide upkeep and develop and build a comprehensive servicing infrastructure. Transit is not just pipes for the gas and oil but also a highway from Poland to Hungary and service facilities for trucks. And, if the ecologists tell us that it should go by rail, we must build around it all that is necessary. Time will show how to resolve it in a reasonable and modern way. The boldest plans envision extending the wide-gauge rail track all the way to the Bratislava harbor and using the connection with Europe through the Rhein-Main canal, but that is a project perhaps for future millennia.

[Simonovicova] Enterprise managers faulted the previous government for lacking a clear vision of the future structure of Slovakia's economy and for failing to choose long-term development programs. How are you coping with that legacy?

[Cernak] In connection with a strategy of revitalization, we have prepared materials on an industrial policy. The government identified priorities, the five basic ones for the immediate future being: energy (completion of projects under construction but also a program for reducing energy consumption); nonbulk chemicals; the wood-processing industry; investments for the environment; and the tourist industry. Additional ones are under consideration, and, together with measures to promote exports, they should complete the picture of Slovakia's future economy. Entrepreneurs engaged in priority pursuits will have to enjoy certain advantages. Large basic projects will be handled by big companies, whether state-owned or private, with the participation of foreign partners. This might account for approximately one-third of the future budget. Another third should be taken care of by small and medium-sized private firms connected as satellites to large producers. And, if we add to it the final third from tourism, we have Slovakia pretty much fixed up.

[Simonovicova] There is some criticism of the budget that has been approved for trying to be balanced at all costs. If it reckoned with boosting the purchasing power. Goods would be sold, and production would experience positive impulses. Private entrepreneurs, too, would speed up upgrading their businesses if they were not threatened by higher taxes.

[Cernak] For now, indeed, we support enterprise only in words. At a time when we are composing our first independent budget, it is rather difficult to apply what many have tried and tested in the world—that less is sometimes more, that lower tax would stimulate greater interest in enterprise. Before the election, each opposition party's program contained a harsh critique of monetarism, restrictions, and balancing the budget at any cost at the expense of development. Both the SNS and the HZDS [Movement for a Democratic Slovakia], however, included in their programs the institution of state debt, which will now be carried out in the budget. To

offer clarity on budgetary resources and facilitate development, the Finance Ministry composed a balanced budget even at the price of restrictions in the social sphere, which has an impact on public health services and education. I, too, am not enthusiastic about it but believe that what the budget plans on the revenue side will be met and that, at the same time, we will maintain stability. It will be hard on the people. We will have to explain and explain and explain.

[Simonovicova] But what and from what will go to development?

[Cernak] Funding development in the amount of 8-10 billion will be handled on an off-budget basis. We will speedily prepare legislation on a development fund and establish criteria by which to assure development. That will be a clear signal to the Western financial world that the fund's assets will not be consumed by Slovaks and that they will really pay for development. How are we to convince the IMF that we will come up with a deficit budget for the purpose of allocating 15 billion to development? And what if we come up short? It is possible to separate noninflationary money from inflationary. Only we will need a lot of coordinating work on the premise that, for specific projects—infrastructure, telecommunications—with precisely established criteria, we will eventually find coverage.

[Simonovicova] You say that it will be a signal to the Western world. Do you expect an infusion of funds from there straight into the development fund?

[Cernak] It would be a mistake to have unbounded trust in foreign capital. However it may sound, we must have domestic millionaires. By this I do not mean to suggest that we will be able to manage without foreign capital; our economy is capital-short, but we must offer a chance to our own people rather than place us in the role of Negroes in our own country. Already we find entrepreneurs who have the financing of their projects assured from the European Bank for Reconstruction and Development or from other banks. Such people must be given room.

[Simonovicova] After the federation is divided, many people predict hard times for Slovakia. Harder than for the Czech lands. Do you take such voices seriously?

[Cernak] Slovakia has already passed through a crisis. I speak as if in the past tense, but, compare the Czech unemployment of 2.8 percent with ours at 13 percent. We are being much more sorely tested now. The Czechs have a better structure in their economy, no doubt about that, but, in a short time, our structure need no longer represent such a handicap. Leaving aside the protectionist tactics of Western Europe, it is always easier to sell the sheet metal from Kosice, the aluminum from Ziar, or cement, in which we offer world-class quality without problems, than a sewing machine or a bicycle. By this I do not mean to suggest that we have to maintain this state of affairs; we have to change it, and already much has been sorted out, and we know where we can

catch on. I do not want to prognosticate, but the Czech economists were overly optimistic in their initial estimate (how shaky did Skoda turn out! And there are more cases of this sort). Their economy will probably show results less favorable than what they had anticipated, and somewhere we will meet on an equal level. It would be a tragedy—also from where I sit in a political office—if by June people began saying that it was better under the Czechs than it is in an independent republic. We must do everything to show that the step was justified, that it will help Slovakia. I am deeply convinced of that.

[Simonovicova] What will be the fate of the aluminum works, the ironworks, and the other giant enterprises? Will we keep them in spite of their dependence on imported raw materials, their high demand for energy, and their ecological insupportability?

[Cernak] As the director of the aluminum works, I had to fight for the factory. It is unsuitably sited but it exists, so what do we next do with it? Ziar must be judged from a perspective of minimizing the bad with the premise that the environment is nothing to joke about. Apart from that unfortunate production line, it has an established

broad system of product finishing, with great potential for further modernization, which would offer a radical solution to the environmental problem. The Hungarian raw material is 110 kilometers from Ziar and available at a very lucrative price. Once the new production begins, the Ziar Valley will become healthy. I saw such a factory in Norway in the center of a city, huge and clean. Ziar has already demonstrated that it can return the energy expended in producing aluminum within two-and-a-half years if properly channeled. The Norwegians call aluminum a green product, and, at a time when Slovakia faces uncertainty, Norwegians are beginning to consider a joint enterprise, buying one-half of Ziar with the promise of developing a program of environmental and energy conservation there. The Kosice ironworks were always dear to government circles, much money was invested there, and, while still under the totalitarian regime, it became one of the most modern metallurgical combines. Its comparative advantage, in addition to high labor discipline and skilled staff, is Ukrainian ore. An agreement was signed recently assuring the supply of raw material from Krivoy Rog. And these are the only two metallurgical factories I have hope for.

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